LECTURE NOTES

Question-1

Mr Asim has provided following data for TY 2021:

Accounting profit and loss is as follows:

Sales		200
Less:	Cost of sale	(120)
Gross Profit		80
Less:	Salaries	(15)
	Depreciation	(5)
	Penalty to Government	(3)
	Repair expense	(17)
	Loss on building sale	(4)
Add:	Other income	
	Discount received	3
	Gain on sale of furniture	9
Profit before tax		48

Other information:

1. Tax depreciation is Rs.7
2. Tax loss on sale of building is Rs.12
3. Tax gain on sale of furniture is Rs.11

Required:

Calculate taxable income for TY 2021?

Anwer-1

Profit Before Tax		48
Add:	Accounting Depreciation	5
	Penalty to Govt.	3
	Accounting Loss on disposal of building	4
	Tax gain on disposal of furniture	11
Less:	Tax depreciation	(7)
	Tax loss on disposal of building	(12)
	Accounting gain on disposal of furniture	(9)
Taxable income		43

DEPRECIATION/AMORTIZATION SUMMARY

Description	Depreciable assets (Tangibles)	Intangibles
1. Section	Section 22 and 23	Section 24
2. Year of purchase	50% Depreciation	Amortization based on days
3. Year of Disposal	50% Depreciation	No amortization
4. Method of depreciation/ Amortization	WDV	Straight line (Ignore residual value)
5. Initial allowance	Initial allowance @25% a. New plant from Pakistan b. New or old plant from outside Pakistan c. Computer	No concept of initial allowance
6. Calculation of gain/(loss) on disposal	4 exceptions	1 exception

DISPOSAL 4 EXCEPTIONS - TANGIBLES

Reference	Category	Scenario	Treatment
S.22(9)	Any asset	Where an asset is used partly in deriving income from business and partly for another use	The **WDV** of the asset at the time of disposal shall be increased by the amount of deduction not allowed in the previous years
S. 22(13)(a)	Expensive Car	Where the cost of passenger transport vehicle (not plying for hire) is restricted to Rs. 2,500,000,	The **consideration** received on disposal shall be calculated as follows– **A x B/C** **A** is the amount received on disposal of the vehicle; **B** Rs. 2,500,000; and **C** is the actual cost of acquiring the vehicle.
S. 22(13)(d)	Building (where consideration > cost)	if consideration received on the disposal of immovable property exceeds the cost,	the consideration shall be treated as the **cost**. Hint : Extend WDV on disposal
S. 22(14)	Any asset exported	If a person exports or transfers out of Pakistan a depreciable asset used in Pakistan	It will be assumed that person has disposed of the asset for a **consideration** equal to the cost of the asset.

DISPOSAL 1 EXCEPTION - INTANGIBLES

Reference	Category	Scenario	Treatment
S.22(9)	Any asset	where the intangible is not wholly used to derive income chargeable to tax,	**Written down value** equals to the cost of the intangible less amortisation that would be allowed if the intangible was wholly used

Question-2

Mr Umer has provided following data for TY 2021:

Profit and loss:

Sale		50
Less:	Cost of sale	(12)
Gross Profit		38
Less:	Expenses	
	Salaries	(5)
	Depreciation	(3)
	Repair	(1)
	Loss on sale of building	(7)
	Fine to Govt.	(2)
	Contribution to recognised provident fund	(4)
	Property tax	(6)
	Income tax	(9)
Add:	Other income	
	Gain on disposal of furniture	8
	Discount received	5
Net profit		14

Other information:

1. Initial allowance is Rs.7
2. Tax depreciation is Rs. 3
3. Tax loss on disposal of building is Rs.5
4. Tax gain on disposal of furniture Rs.4

Required:

Calculate taxable income?

Answer-2

Accounting profit		14
Add:	Accounting Depreciation	3
	Accounting loss on disposal of building	7
	Fine to Govt.	2
	Income tax	9
	Tax gain on disposal of furniture	4
Less:	Accounting gain on disposal of furniture	(8)
	Initial allowance	(7)
	Tax depreciation	(3)
	Tax loss on disposal of building	(5)
Taxable income		**16**

Rules for Income from Business Numericals – Part A

Treatment of various adjustments in numerical

Sr.	Category	Reverse	Record
1.	Owned assets	Accounting depreciation	Tax depreciation and initial allowance
2.	Owned assets wrongly recorded as expenses in profit & loss	Cost of asset	Tax depreciation and initial allowance
3.	Leased assets (Running lease)	a. Accounting depreciation b. Interest expense/ finance cost	Lease rental paid [S. 28]
4.	Leased assets acquired (acquired by paying bargain purchase price or residual value)	Accounting depreciation	Tax depreciation
5.	Debtor – loss	Provision for doubtful debt	Actual bad debt
6. Add	Deductions not allowed such as: a. Fine to Govt. b. Income tax c. Salary/month exceeding Rs. 25,000 per month paid in cash d. Contribution unrecognized funds etc.	The amount given in question	Nothing
7. Ignore	Deductions allowed such as: a. Fine not to Govt. b. Property/token tax etc.	Nothing	Nothing

Question-3 [Class Work]

Sikandar Khan is involved in selling electric goods. Details of his income for TY 2024 are as follows:

Income Statement

		Rupees in 000
Revenue		25,500
Less: Cost of sales		(3,000)
Less:	Expenses	
	Salaries	3,000
	Depreciation owned assets	230
	Depreciation leased asset	60
	Finance cost on assets leased	40
	Loss on sale of building	10
	Travel expenses (all paid in cash)	150
	Other expenses	600
	Advance Income tax	200
		(4,295)
Add:	Other income	
	Gain on sale of furniture	11
	Other income	200
		211
Net profit		18,416

Notes to the Income Statement

(i) Salary expenses include amounts of Rs. 50,000 and Rs. 75,000 per month paid to Sikandar and his brother respectively. His brother looks after administration and financial matters of the firm. It also includes six months' salary of a temporary worker, at Rs. 28,000 per month, paid in cash.

(ii) Tax depreciation and initial allowance on owned assets amounted to Rs. 50,000 and Rs. 60,000 respectively.

(iii) Lease rentals paid during the year on assets acquired on lease during the year amounted to Rs. 75,000.

(iv) A building having tax written down value on disposal of Rs. 40,000 is sold for Rs. 90,000. Its cost at the time of purchase was Rs. 70,000.

(v) Furniture having tax written down value on disposal of Rs. 35,000 is exported against a consideration of Rs. 70,000. Its cost at the time of purchase was Rs. 50,000.

(vi) Other expenses include:

	Rupees
Penalty imposed by the Commissioner for late filing of the annual return	45,000
Contribution to an unapproved superannuation fund	17,000
Cost of computer software purchased on 1 May 2024 (Life is 5 years)	30,000
Amount paid to a research institute in China for the purpose of developing a new product.	15,000
Provision for bad debts	25,000
Damages paid to a distributor for delayed supplies	6,000
Electricity bills for home	12,000

(vii) Revenue includes Rs. 75,000 recovered from Moin in respect of bad debts for tax year 2022. The actual bad debt recorded was Rs. 80,000 however tax authorities only allowed Rs. 45,000 as deduction.

(viii) Creditors include Rs. 6,000 rent payable which was allowed as a deduction, on the accrual basis, against the income for the year ended 30 June 2020.

Required: Calculate his tax liability for TY 2024.

Question-4 [Home Work]

Profit and loss of Mr. X is as follows:

		Rs. in mill.
Sale		200
Less: Cost of sale		(50)
Gross profit		150
Less:	Salaries (all without tax deduction)	(30)
	Entertainment	(6)
	Unrecognized provident fund	(7)
	Utilities paid in cash	(4)
	Amortization	(21)
	Depreciation	(3)
	Loss on computer disposal	(5)
	Token tax	(6)
	Repair	(11)
	Advertisement	(5)
	Gifts to clients	(3)
	Freight paid in cash	(12)
Add:	Gain on disposal of building	5
Net profit		42

Other information:

1. Tax amortization is Rs.15 million
2. Initial allowance is Rs.12 million
3. Tax depreciation is Rs.11 million
4. Computer having tax W.D.V of Rs.20 million is exported to Nepal. Consideration received on disposal is Rs.25 million and cost at time of purchase was Rs.22 million.
5. Building having tax W.D.V of Rs.30 million is disposed of for Rs. 230 million. Cost at time of purchase was Rs.150 million.

Required:

Calculate taxable income?

Answer-4

Income from Business

		Rs. in million
Accounting profit		42
Add:	Salaries [S.21(c)]	30
	Unrecognized provident fund [S. 21 (e)]	7
	Accounting amortization	21
	Accounting depreciation	3
	Accounting loss – computer	5
	Tax gain – computer (W-1)	2
	Tax gain – building (W-2)	120
Less:	Accounting gain – building	(5)
	Tax amortization	(15)
	Initial allowance	(12)
	Tax depreciation	(11)
Taxable income		187

WORKINGS

(W-1) Tax gain / (loss) computer

Consideration received		22
Less:	Tax W.D.V	(20)
Tax gain		2

(W-2) Tax gain / (loss) building

Consideration received			230
Less:	Tax W.D.V		
	Cost	230	
	Accumulated depreciation (150 – 30)	(120)	(110)
Tax gain / (loss)			120

Rules for Income from Business Numericals – Part B

Amounts Wrongly Included in Expenses

No.	Item	Treatment
1	Zakat	Not allowed in income from business so **add back**. Then it will be deducted as deductible allowance if paid under Zakat and Usher Ordinance
2	Donation U/s 61	Not allowed in income from business so **add back**. Then it will be allowed as a tax credit
3	Donation to poor, beggars, family members, private organizations	Not allowed in income from business so add back. No other action
4	Security deposits	It is not allowed in income from business as deduction so add back. Note: Security deposit may be for lease, may be for electricity connection etc.
5	Advance income tax	Not allowed in income from business so add back. Deduct at end of numerical
6	Personal expenses	Not allowed in income from business so add back. No other action required.
7	Cost of preparing feasibility study	(These are pre-commencement expenditures) Not allowed in income from business so add. Now deduct tax amortisation @20%

Rules for Income from Business Numericals – Part C

Incomes that may be included in other income

i. Gain on disposal of shares
ii. Dividend income
iii. Income from property
iv. Income from other source
v. Gain on disposal of business land

Note: All these will be deducted while calculating income from business and will be reclassified at relevant places using tax rules.

Question-5 [Extracted from Chapter 19]

Mr. Qateel, a resident individual, is engaged in the manufacturing of various consumer goods under the name and style Qateel Enterprises (QE). The following information has been extracted from the records of QE for the financial year ended 30 June 2021.

	Rupees
Total turnover	28,500,000
Cost of sales	(26,155,000)
Gross profit	2,345,000
Operating expenses	(4,500,000)
Operating loss	(2,155,000)
Finance charges on lease of machinery	(35,703)
Other income	5,000,000
Profit before tax	2,809,297

Additional information:

(i) Cost of sales includes:
- Rs. 45,000 paid as fine for violation of contract with a customer for delay in supply of goods.
- accounting depreciation of Rs. 2,498,940 (including depreciation on leased assets).

(ii) Operating expenses include:
- Rs. 450,000 paid for renewal of a licence for fifteen years.
- vehicle tax paid in cash amounting to Rs. 255,000 for eight office cars.
- Rs. 185,000 paid as security deposit to K-Electric (KE) for replacement of transformer at the factory.
- Rs. 300,000 collected by KE as advance tax through monthly electricity bills.
- cash donation to poor families amounting to Rs. 64,600 and Zakat of Rs. 1,401,060 paid under Zakat & Ushr Ordinance.
- penalty of Rs. 25,000 imposed by the Commissioner Inland Revenue for late filing of annual return of income for the tax year 2020.
- entertainment expenditure of Rs. 128,000 incurred on arrival of foreign customers for business purposes.

(iii) Other income includes:
- Capital gain of Rs. 1,200,000 from sale of shares of a private limited company. Shares were acquired on 1 August 2016.

(iv) Lease rentals paid during the year amounted to Rs. 270,000.

(v) During the year, a warehouse was constructed for storage of goods at a cost of Rs. 4,888,000. No accounting depreciation has been recorded on it.

(vi) Tax depreciation for the tax year 2021 without considering the effect of para (v) above, amounted to Rs. 1,560,000.

(vii) Advance income tax paid during the year amounted to Rs. 480,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by or refundable to QE for the year ended 30 June 2021. **(16)**

Note:

- ***Ignore minimum tax under section 113***
- ***Show all the relevant exemptions, exclusions and disallowances***

Question-6 [Extracted from Chapter 19]

Mushtaq is a sole proprietor of Mushtaq Enterprises (ME) engaged in the business of manufacturing of different products. ME's profit and loss account shows profit before taxation of Rs.1.8 million for the year ended 30 June 2021. A review of ME's records has revealed the following information.

(i) ME employs five salesmen. Rs.32,000 per month were paid to each salesman in cash which includes reimbursement of Rs.6,000 per month incurred on entertainment of customers at the business premises.

(ii) Financial charges include Rs.80,000 pertaining to a vehicle obtained on lease from a leasing company. The cost of vehicle was Rs.1,300,000. Depreciation of Rs.260,000 has been included in administrative and selling expenses. Lease rentals paid during the year amounted to Rs.300,000.

(iii) Accounting loss on the sale of patents was Rs.65,000. The tax written down value of these patents at the beginning of the year was Rs.430,000 and these were sold for Rs.524,000. Amortization charged to the profit and loss account on these patents for the current year was Rs.25,000.

(iv) ME has opened a sales office in Dubai. In this respect, furniture costing Rs.850,000 with written down value (WDV) of Rs.650,000 was shifted to Dubai office. The tax WDV of the furniture at the beginning of the year was Rs.610,000.

(v) Accounting depreciation for the year is Rs.580,450. Tax depreciation for the year amounted to Rs.456,400.

(vi) Advance tax paid u/s 147 was Rs. 200,000.

Required:

Under the provisions of Income Tax Ordinance, 2001 and rules made thereunder, compute taxable income and net tax payable by or refundable to Mushtaq for the year ended 30 June 2021.

Question-7

Mr. Mubashar, a resident individual, is engaged in the manufacturing of various consumer goods under the name and style Mubashar Enterprises (ME). The following information has been extracted from the records of ME for the financial year ended 30 June 20X8.

	Rupees
Total turnover	30,000,000
Profit before tax	2,500,000

Additional information:

(i) Finance charges include interest of Rs 35,000 on leased asset and cost of sales includes accounting depreciation of Rs. 200,000 on leased asset.

(ii) Accounting depreciation on owned assets is Rs. 650,000. Tax depreciation for the tax year 20X8 without considering the effect of para (iv) below, amounted to Rs, 1,200,000.

(iii) Other income includes dividend of Rs. 580,000 received from listed companies. The amount is net of income tax at the rate of 15% and Zakat of Rs. 100,000 deducted under the Zakat and Usher Ordinance, 1980.

(iv) On 30 June 20X8, leased machinery was transferred to Mubashar on maturity of lease. The leasing company was asked to adjust the amount of security deposit against the residual value of Rs. 100,000. The date of commencement of lease was 1 July 20X3.
Lease rentals paid during the year amounted to Rs. 270,000.
On the date of maturity, the accounting written down value and market value of the machinery was Rs. 590,490 and Rs. 800,000 respectively.
At commencement of lease (1 July 20X3) the cost of machinery was Rs. 1,200,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by or refundable to ME for the year ended 30 June 20X8. (8)

Note:

- ***Ignore minimum tax under section 113***
- ***Show all the relevant exemptions, exclusions and disallowances***

Question-8

Mr. Tariq has provided you with the following details:

		Rs.
Sale		70
Less:	Cost of sales	(20)
Gross profit		50
Add:	Other income	
	Rental income of building	* 12
	Gain on disposal of shares	9
	Dividend income	5
Less: Expenses		
	Salaries	(3)
	Advertisement	(7)
	Repair of building give on rent	* (5)
	Penalty to government	(4)
		57

Required: Calculate his income from business?

Answer-8

Income from Business

Net profit		57
Add:	Repair – Income from property	5
	Penalty	4
Less:	Gross receipt – Income from property	(12)
	Income from capital gain	(9)
	Dividend Final tax regime	(5)
		40

Question-9

Mr. Faisal has provided following details:

		Rs.
Sale		70
Less:	Repair expense	(3)
	Fine to Government	(7)
	Interest expense on leased assets	(4)
	Accounting depreciation on leased assets	(9)
	Accounting depreciation on owned assets	(12)
Add:	Gain on disposal of shares	6
Net profit		41

Other information:

1) Lease Rental paid is Rs. 13.
2) Tax depreciation is Rs. 5

Required: Calculate taxable income assuming:

a) We start from profit
b) We start from sale

Answer-9

a) **If we start from profit**

Income from Business

Net profit		41
Add:	Fine to govt.	7
	Interest on lease assets	4
	Accounting depreciation on leased assets	9
	Accounting depreciation owned assets	12
Less:	Lease rental	(13)
	Tax depreciation	(5)
	Gain on disposal of shares	(6)
		49
Income from capital gain		6
Taxable income		55

b) **If we start from sale**

Income from Business

Sale		70
Less:	Repair expense	(3)
	Rental	(13)
	Tax depreciation	(5)
		49
Income from capital gain		6
Taxable income		55

Question-10

Question

J. has provided the following data relating to his business:

		Rs. In 000
Sales		5,000
Less:	Purchases – Raw Material	(1,000)
	Salaries	(300)
	Rent Expense	(150)
	Prize awarded to customers for sales promotion	(30)
Net Profit		3,520

J. has not withheld the tax on purchases amounting to Rs. 700,000. Further no tax was deducted on payments for rent and prizes.

Required: Calculate income from business?

Note: Your computation should start from profit figure of Rs. 3,520,000.

Answer-10

Income from business

		Rs. in "000"
Net profit		3,520
Add:	Purchases disallowed (W-1)	200
	Rent	150
	Prize	30
Taxable income		3,900

(W-1) Purchases disallowed

Lower of:

- Purchases on which tax is not deducted — 700
- 20% of total purchases (1,000 x 20%) — 200

INCOME FROM PROPERTY

9

1. Income from Property [Sec. 15]
2. Deductions in computing income chargeable under the head income from property [Sec. 15A]
3. Non-adjustable amounts received in relation to buildings [Sec. 16]
4. Income of joint owners [Sec 66]

CHAPTER 9
INCOME FROM PROPERTY

Income from Property [Sec. 15]

(1) The rent received or receivable by a person for a tax year, other than rent exempt from tax, shall be chargeable in that year under the head "Income from Property".

> **Scope of Sec. 15: Rent** from **property,** received or receivable by a person for a tax year.

(2) "Rent" means:

- any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, the land or building, and
- any forfeited deposit paid under a contract for the sale of land or a building.

> **Definition of Rent:**
> - LAND OR BUILDING includes
>   - Open plot of land rented out
>   - Land rented along with building
> - Example of forfeited deposit
>
> Mr. H went to meet a property dealer and the property dealer showed him a house which Mr. H can buy at any time by paying Rs. 1,100,000. Mr. H likes the house. Property dealer said, "if you give me advance money of Rs. 50,000, I will not sell this house to anyone". Mr. H agreed and now Mr. H has entered into a contract to purchase the property by paying the remaining amount on a specified date. At the time of payment, Mr. H refused to purchase the property. Now Rs. 50,000 will not be refunded by the property dealer as per the norms of the business now-a-days. This will fall under "Income from property" of the property dealer.

(3) Any rent received by a person against lease of a building together with plant and machinery shall be chargeable under the head "Income from Other Sources".

(3A) Where rent includes an amount received for the provision of amenities, utilities or any other service connected with the renting of the building, it shall be chargeable under the head "Income from Other Sources".

Example-1

Mr. Asim rented out his own house to Mr. Babar against a rent of Rs. 55,000/month. As per the terms Rs. 5,000/m is charged against rendering of utility & sweeper services. This Rs. 5,000 is included in Rs. 55,000. The actual expenditures incurred by Mr. Asim are:

Repair of house	7,000/m
Property tax of house	2,100/m
Utility bills	1,800/m
Sweeper wages	1,000/m

His Income from business in current year is Rs. 900,000.
Calculate his tax liability?

Solution

- Income from business		900,000
- Income from other source	(5,000 – 1,800 – 1,000) x 12	26,400
- Income from property	(W-1)	454,800
Taxable income – taxable under NTR		**1,381,200**
Tax payable to government (Table 1)	(70,000 + 15% x 181,200)	97,180

(W-1) Income from property

Gross Rent	(50,000 x 12)	600,000
Less: Admissible deductions		
Repair allowance	(600,000 x 1/5)	(120,000)
Property tax of house	(2,100 x 12)	(25,200)
Rent chargeable to tax		454,800

Example-2

Mr. A has two houses. House # 1 is given on rent to an individual and House # 2 is given on rent to a company.

House	Rent/month of house	Amount charged/month for utilities	Actual Exp. of utility/month
House # 1	40,000	15,000	10,000
House # 2	70,000	18,000	3,000

Mr. A also earned income from business of Rs. 700,000.

Answer

- Income from business		700,000
- Income from other source		
- House # 1	(15,000 – 10,000) x 12	60,000
- House # 2	(18,000 – 3,000) x 12	180,000
- Income from property	(W-1)	1,056,000
Taxable income – taxable under NTR		**1,996,000**
Tax payable to government (Table 1)	(70,000 + 15% x 796,000)	189,400

(W-1) Income From Property

House # 1	(40,000 x 12)	480,000
House # 2	(70,000 x 12)	840,000
		1,320,000
Less: Admissible deductions		
Repair allowance	(1,320,000 x 1/5)	(264,000)
Rent chargeable to tax		1,056,000

(4) The following amount of rent will be added in the income:

Higher of:

- Actual rent
- Fair market rent

Example

Mr. K is a relative of Mr. O. Mr. O lets out a house to Mr. K at a subsidized rent per month of Rs. 12,000. However, rent prevailing in the market for the house of similar size is Rs. 20,000 per month. For the purpose of rent income under income from property, Rs, 20,000 shall be taken as it is higher than actual rent received.

Deductions in computing income chargeable under the head income from property [Sec. 15A]

(1) Following deductions shall be allowed under the head "Income from Property":

a. In respect of repairs to a building, an allowance equal to one-fifth of the rent chargeable to tax;

Note: Repair allowance will not be allowed in case where only open plot is given on rent.

b. Insurance premium paid (or payable) in the year to insure the building;

c. local rate, tax, charge or cess paid (or payable) on property or the rent from the property to any local authority or government in the year (excluding income tax);

d. ground rent paid (or payable) for the property;

e. any profit paid (or payable) on any money borrowed to acquire, construct, renovate, extend or reconstruct the property;

f. if the property is acquired, constructed, renovated, extended, or reconstructed with capital contributed by the House Building Finance Corporation or a scheduled bank, the share in rent and share towards appreciation in the value of property;

g. where the property is mortgaged (or other capital charge), the profit or interest paid;

h. any expenditure paid (or payable) wholly and exclusively for deriving rent including administration and collection charges up to lower of;

   a. actual expense or

   b. 4% of rent chargeable to tax

i. Legal charges paid (or payable) to defend the title of the property or any suit connected with the property in court; and

j. where there are reasonable grounds to believe that unpaid rent is irrecoverable, an allowance equal to the unpaid rent if:

   (i) tenancy was bona fide, the defaulting tenant has vacated the property or steps have been taken to compel the tenant to vacate the property and the defaulting tenant is not in occupation of any other property of the person;

   (ii) owner has initiated legal proceedings or he believe that legal proceedings would be useless; and

   (iii) Unpaid rent has previously been included under the head "Income from Property" and tax has been paid on it.

(2) Where any unpaid rent allowed as a deduction is wholly or partly recovered, the amount recovered shall be chargeable in the tax year of receipt.

(3) Where a deduction is allowed to a person for any expenditure in deriving "Income from Property" and the person has not paid the related liability within 3 years of the end of the tax year in which the deduction was allowed, the unpaid liability shall be chargeable under the head "Income from Property" in the first tax year following the end of the three years (This provision is same as S.34(5))

(4) Where an unpaid liability is taken to income as above and the person subsequently pays the liability, the person shall be allowed a deduction for the amount paid in the year of payment (This provision is same as S.34(6)).

(5) Any expenditure allowed as a deduction under this head shall not be allowed under any other head.

(6) The deductions which are not allowed under the head income from business will also not be allowed under the head Income from property.

Non-adjustable amounts received in relation to buildings [Sec. 16]

(1) Where the owner of a building receives from a tenant an amount which is not adjustable against the rent, it shall be chargeable under the head "Income from Property" in the tax year in which it was received and the following 9 tax years in equal proportion.

(2) Where an amount which is not adjustable against the rent is refunded by the owner to the tenant on termination of the tenancy before the expiry of 10 years, no portion of the amount shall be allocated to the tax year in which it is refunded or to any subsequent tax year.

(3) Where the owner has refunded non-adjustable amount to the tenant, on termination of tenancy, and the owner lets out the building to succeeding tenant than new advance less such portion of the earlier amount that was charged to tax, shall be chargeable under the head "Income from Property" in the tax year in which it was received and the following 9 tax years in equal proportion.

Note: Non-adjustable advance in case of open plot of land (given on rent) is not taxable under the law.

Example-1

Mr. Babar rented out his house to Qasim on 1-9-12 at monthly rent of Rs. 80,000. The fair market rent per month is Rs. 90,000. In addition to monthly rent, Qasim also agreed to pay Rs. 600,000 as non-adjustable advance. Qasim vacated the house on 31-1-15. The house was given to new tenant Umar on 1-02-15 at monthly rent of Rs. 120,000. The new tenant gave Rs. 900,000 as non-adjustable amount which was partly used to repay Rs. 600,000 to old tenant.

Required:

Calculate income from property for tax year 2013, 2014 and 2015.

Solution

TY 2013

Rental income	(90,000 x 10 months)		900,000
Add: Nonadjustable	(600,000 / 10)		60,000
Gross rent			960,000
Less: Admissible deductions			
Repair allowance	(960,000 x 1/5)		(192,000)
Income from property			768,000

TY 2014

Rental income	(90,000 x 12)		1,080,000
Add: Nonadjustable	(600,000 / 10)		60,000
Gross rent			1,140,000
Less: Admissible deductions			
Repair allowance	(1,140,000 x 1/5)		(228,000)
Income from property			912,000

TY 2015

Rental income	(90,000 x 7 + 120,000 x 5)		1,230,000
Add: Non-adjustable amount Received from new tenant		900,000	
Less: Already taxed			
- In TY 2014	(600,000/10)	(60,000)	
- In TY 2013	(600,000/10)	(60,000)	
		780,000 /10	78,000
Gross rent			1,308,000
Less: Admissible deductions			
Repair allowance	(1,308,000 x 1/5)		(261,600)
Income from property			1,046,400

Example-1A

Continuing from above Example-1, assume in TY 2015 only Qasim left and no new tenant came. Calculate income from property of TY 2015?

TY 2015

Rental income	(90,000 x 7)	630,000
Add: Non-adjustable amount	[S. 16 (2)]	-
		630,000
Less: Repair allowance	(630,000 x 1/5)	(126,000)
		504,000

Example-2

Mr. A has rented out his house to Mr. H on 1 September, 2009 for a monthly rental of Rs. 35,000 due to his friendship. Fair market rental of house is Rs. 40,000/month. He also received Rs. 300,000 as non-adjustable amount on 1 September, 2009.

Further the house was given on rent by Mr. A to Mr. S on 1 June, 2012 at a monthly rental of Rs. 45,000/month. Mr. S gave Rs. 500,000 as non-adjustable amount which was partly used to make payment of Rs. 300,000 to Mr. H who vacated house on 31 May, 2012.

Required: Calculate Income from Property for TY 2010, 2011 and 2012?

Solution

Tax Year 2010

Rental income	(40,000 x 10)	400,000
Non-adjustable amount	(300,000/10)	30,000
Gross rent		430,000
Less: Admissible deductions		
Repair allowance	(430,000 x 1/5)	(86,000)
Income from property		344,000

Tax Year 2011

Rental income	(40,000 x 12)	480,000
Non-adjustable amount	(300,000/10)	30,000
Gross rent		510,000
Less: Admissible deductions		
Repair allowance	(510,000 x 1/5)	(102,000)
Income from property		408,000

Tax Year 2012

Rental income	(40,000 x 11) + (45,000 x 1)	485,000
Non-adjustable amount	{(500,000 – 30,000 – 30,000)/10}	44,000
Gross rent		529,000
Less: Admissible deductions		
Repair allowance	(529,000 x 1/5)	(105,800)
Income from property		423,200

Treatment of advance adjustable against rent

If the advance is adjustable against rent it will be ignored in the question.

Question

Mr. Umer rented out a house on July 1, 2013 at a monthly rent of Rs. 100,000. As per agreement Rs. 300,000 advance will be received on July 1, 2013 and will be fully adjusted against rent of July, August and September 2013. Remaining payments of rent will be paid at the end of each respective month. Calculate property income for tax year 2014.

Answer

Gross rent TY 2014	(100,000 x12)	1,200,000
Less: Admissible deductions		
Repair allowance	(1,200,000 x 1/5)	(240,000)
Income from property		960,000

There will be no separate treatment of Rs. 300,000 because it will be taxed automatically in 3 months being an integral part of monthly rental income.

Income of joint owners [Sec 66]

(1) Where any property is owned by two or more persons and their respective shares are definite and ascertainable –

(a) the persons shall not be assessed as an AOP in respect of the property; and

(b) The share of each person in the income from the property for a tax year shall be taxable in their own hands respectively and not as AOP.

(2) This section shall not apply in computing income chargeable under the head "Income from Business".

Note: Where any property chargeable under section 15 is owned by two or more persons and their respective shares in that property are not definite and ascertainable, the property will be considered as being jointly owned by an association of persons (AOP) and taxable income and tax payable thereon will be computed as per the principles of taxation for AOP.

> **Exam Note:** If AOP is earning both income from business and income from property, then income from property will be taxable in the hands of AOP and not the members.
> For example of section 66, refer Q.1 March 2010 in chapter 12.

Example-1

Mr. A and B are joint owners of a house and they have provided the following data:

Profit sharing ratio amongst A and B	60:40
Rental income earned from house for TY 2013	3,000,000

Calculate tax liability for A and B?

Solution-1

Mr. A		
Income from property	(2,400,000 x 60%)	1,440,000
Tax liability – A	70,000 + (240,000 x 15%)	106,000
Mr. B		
Income from property	(2,400,000 x 40%)	960,000
Tax liability - B	10,000 + (360,000 x 10%)	46,000

(W-1) **Income from property**		
Gross receipt		3,000,000
Less: Admissible deductions		
Repair allowance	(3,000,000 x 1/5)	(600,000)
		2,400,000

Example-2

Qasim and Talha jointly own a house in Lahore. Qasim has 75% share in the house. On 1 July 2015, the house was let out at an annual rental value of Rs. 10 million. This amount includes Rs. 100,000 per month for utilities, cleaning and security.

During the tax year 2016, the owners incurred the following expenditures in relation to the house:

	Rupees
Utility bills paid to utility companies, security charges paid to security guard and cleaning expenses paid to sweeper	500,000
Repair and maintenance	450,000
Insurance premium	340,000
Collection charges	25,000

Qasim and Talha have no other source of income. All the above expenses were incurred by them jointly.

Required:

Calculate taxable liability of Qasim and Talha for the tax year 2016:

Solution-2

Income of Qasim

Income from Other Source	((W-2) 700,000 x 75%)		525,000
Income from property	(W-1) (B)		5,006,250
Taxable income			5,531,250
Tax Payable to Govt. (Table 1)	(620,000 + 30% x 1,531,250)		1,079,375

Income of Talha

Income from Other Source	((W-2) 700,000 x 25%)		175,000
Income from property	(W-1) (C)		1,668,750
Taxable income			1,843,750
Tax Payable to Govt. (Table 1)	(70,000 + 15% x 643,750)		166,563

(W-1) Income from property

Gross Rent	(10,000,000 – 100,000 x 12)			8,800,000
Less: Admissible deductions				
Repair allowance	(8,800,000 x 1/5)			(1,760,000)
Insurance premium				(340,000)
Collection charges lower of:				
- Actual charges		25,000		
- 4% of chargeable rent (4% x 8,800,000)		352,000		(25,000)
Rent chargeable under NTR			**(A)**	6,675,000
Share of Qasim	(6,675,000 (A) x 75%)		**(B)**	5,006,250
Share of Talha	(6,675,000 (A) x 25%)		**(C)**	1,668,750

(W-2) Income from other source

Rent charged for utilities and security	1,200,000
Less: Utilities and security expense	(500,000)
	700,000

Rents specifically excluded from "Income from property"

The following rents are specifically excluded from Income from property and would be taxable under the head Income from other sources:

1. Rent against lease of a building together with plant and machinery.
2. Rent for provision of amenities, utilities or any other service connected with the renting of the building.
3. Rent from sub-lease of land or a building

ICAP PAST PAPER QUESTIONS

Question-1 (1)
What is chargeable to tax under the head 'income from property'? **(Q.3(a)September 2002)**

Question-2 (2)
Describe the term 'rent' in the context of income from property. **(Q.1(a)September 2006)**

Question-3
Discuss the provisions of the Income Tax Ordinance, 2001 regarding non-adjustable amount received from a tenant by the owner of a building. (5)
(Q.4 (b) March 2009)

Question-4
(i) Explain the term 'Rent' in context of 'Income from property'. (02)
(ii) Specify the head of income under which the following amounts would be chargeable to tax:
- rent from sub lease of a building.
- amount included in rent for the provision of amenities, utilities and any other service connected with renting of the building. (02)

(Q.4(a) March 2015)

Question-5
Bashir and Jameel jointly own a house in Karachi. Bashir has 75% share in the house. On 1 September 20X3, the house was let out at an annual rental value of Rs. 6,500,000. This amount includes Rs. 186,000 per month for utilities, cleaning and security.

During the tax year 20X4, the owners incurred the following expenditures in relation to the house:

	Rupees
Utilities, cleaning and security	650,000
Repair and maintenance	810,000
Insurance premium	240,000
Collection charges	25,400

Bashir and Jameel have no other source of income. All the above expenses were incurred by them jointly.
Required: (10)
Calculate tax liability of Bashir and Jameel for the tax year 20X4.
(Q.4 March 2014)

Question-6
ABC Associates owns a building which is on rent. The following information is available:

- Rent received from tenants	2,300,000
- Depreciation on building under the Third Schedule to the Ordinance	400,000
- Property Tax	100,000
- Municipal/local government taxes (agreements with tenants provide that tenant should pay the municipal taxes)	100,000

Rent received includes Rs.600,000 for three years commencing from July 01 of the current year. ABC Associates follow accrual basis of accounting and its income year is July-June 20X8.
Required: Compute the income from property of ABC Associates. **(Q.4 September 2002)**

Question-7

Mr. Sohail, a resident individual, owns a building in Clifton area of Karachi. On 1.10.2021 he rented out the building to Mr. Baqir at an annual rent of Rs. 1,200,000. This amount include Rs. 15,000 per month for arranging two security guards for the building. Following expenses were incurred by Mr. Sohail on the building during the tax year 2022:

	Rs.
Repairs and renovation	35,000
Property tax	20,000
Insurance premium	10,000
Rent collection charges	3,000

Mr. Sohail also paid a salary of Rs.4,000 per month to each of the two security guards at building.

Required: Under the provision of Income Tax Ordinance, 2001 calculate the tax liability of Mr. Sohail under the appropriate heads of income for the tax year 2022.

(06)

(Q.4(a) December 2012)

Question-8

On 1.7.20X4, Fahim agreed to rent out a house to Mirza at a monthly rent of Rs.180,000 with effect from 1.8.20X4 and received one year's rent in advance. He also received Rs.800,000 as a security deposit which was partly used to repay the security deposit of Rs.400,000 received from the previous tenant In July 20X0 and partly used for renovation of the house.

Fahim also Incurred the following expenses In respect of the above house:

a. property tax of Rs. 15,000.
b. payment of interest Rs.200,000 to his friend against amount borrowed for renovation of the house.
c. Insurance premium of Rs. 110,000.
d. Rs.5,000 per month for collection of rent.

Required: Under the provisions of the Income Tax Ordinance, 2001 compute the property income of Fahim for tax year 20X5

(07)

(Q.4(b) March 2015)

Question-9

Mr. Amir-ud-din has recently constructed an office complex for the purposes of letting out. As per terms and conditions, Mr. Amir-ud-din is also entitled to signing amount, which is non- refundable. For the tax year 20X8 following information has been provided to you for the computation of his income from property:

Rent for the year already received	1,150,000
Rent for the year though due but irrecoverable	50,000
Signing amount (non-adjustable, non-refundable)	100,000
Fire tax paid to the local authority	20,000
Lawyer's fee for suit to recover rent	50,000
Salary of the caretaker who collects monthly rent	46,000
Insurance premium being 1% of market value of the property	200,000
Repair maintenance expenditure	50,000

Calculate his income from property for TY 20X8.

(10)

(Q.5 March 2003)

Question-10

On 1 July 20X8, Zahid rented out his properties as follows:

(i) An apartment was rented to Abdul Qadir at a monthly rent of Rs. 40,000. Zahid received a non-adjustable security deposit of Rs. 300,000 which was partly used to repay the non-adjustable security deposit amounting to Rs. 175,000 received from the previous tenant in July 20X3. He also spent Rs.20,000 on repairs of the apartment in February 20X9.

(ii) A bungalow was rented to a bank. Zahid and his younger brother are joint owners of the bungalow in the ratio of 60:40 respectively. The annual rent agreed with the bank was Rs. 6,000,000 which is inclusive of Rs. 100,000 per month for utilities, cleaning and security. Zahid paid Rs. 35,000 per month for providing these services.

Required:

Under the provisions of Income Tax Ordinance, 2001 compute total and taxable income of Zahid for the tax year 20X9 under appropriate heads of income. (07)

(Q.3 (c) March 2019)

Question-11

Yaqoot and Loha are joint owners (co-owners) of a bungalow which has been rented out for Rs. 70,000 per month.

Required:

Discuss the taxability of Yaqoot and Loha in respect of above income, in the light of Income Tax Ordinance, 2001. (3)

(Q.4 (b) March 2012)

Question-12

Explain the term 'Rent' with relation to 'Income from property'. (02)

(Q.2 (a) September 2019)

Question-13

Farhan and Imran jointly own a building in Quetta. The building has been rented out to a company. ***Discuss the tax treatment of income from such property.*** (02)

(Q.3 (e) September 2019)

Question-14

On 1 July 2021 Farrukh borrowed Rs.8,000,000 from Star Bank Limited and acquired a plot of land in hub industrial zone of Rs. 6,500,000. He invested rest of the loan in a business venture with his friend. The above loan carries mark up at rate of 12% per annum and is repayable in eight equal quarterly installments starting fro, 01 July 2022. On 01 August 2021 Farrukh decided to sell plot of land to Zulfiqar Motors for Rs. 10,000,000 and receive deposit of Rs. 500,000 from them. On 15 August 2021 Farrukh forfeited the deposit on refusal of Zulfiqar Motors to purchase plot of land.

On 01 September 2021 Farrukh let out the plot of land to his friend Atif at a monthly rent of Rs. 150,000. He received un-adjustable deposit of Rs. 200,000 from Atif and paid 80,000 for levelling the ground, Rs. 62,000 as insurance premium against risk of damage or destruction by water logging and Rs. 140,000 against rent collection charges. Farrukh has paid Rs. 25,000 to a firm of valuer, which determined the annual rental value of plot of land at Rs. 2,160,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the relevant head of income, taxable income of Farrukh for tax year 2022. (8)

(Q.4 September 2016)

ICAP PAST PAPER SOLUTIONS

Answer-1

Followings are chargeable to tax under the head income from property:

1. Any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building,[S.15(2)]
2. Any forfeited deposit paid under a contract for the sale of land or a building. [S.15(2)]
3. Where the owner of a building receives from a tenant an amount which is not adjustable against the rent, the earned amount shall be treated as rent chargeable to tax under the head "Income from Property" in the tax year in which it was received and the following nine tax years in equal proportion.[S.16(1)]

Answer-2

"Rent" means "any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes any forfeited deposit paid under a contract for the sale of land or a building." [S.15(2)]

Answer-3

Section 16

Answer-4

i. 'Rent' means any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes any forfeited deposit paid under a contract for the sale of land or a building. Where the owner of the building receives from a tenant an amount which is not adjustable against the rent payable by the tenant, the amount shall be treated as rent.

ii. The income given in the question would be chargeable as follows:
- Rent from sub lease of a building shall be chargeable under the head "Income from Other Source"
- amount included in rent for the provision of amenities, utilities and any other service connected with renting of the building shall also be chargeable under the head "Income from Other Source"

Answer-5

Income of Bashir			
Income from Other Source [S.15(3A)]	((W-2) 1,210,000 x 75%)		907,500
Income from property	(W-1)		1,934,950
Taxable income – taxable under NTR			2,842,450
Tax Payable to Govt. (Table 1)	(250,000 + 20% x 442,450)		338,490
Income of Jameel			
Income from Other Source [S.15(3A)]	((W-2) 1,210,000 x 25%)		302,500
Income from property			644,984
Taxable income – taxable under NTR			947,484
Tax Payable to Govt. (Table 1)	(10,000 + 10% x 347,484)		44,748

(W-1) Income from property

Annual gross receipt			6,500,000
Less: Income chargeable under the head Income from other source		(186,000 x 12)	(2,232,000)
			4,268,000
Less: Receipt relating to next year		(4,268,000 x 2/12)	(711,333)
Gross rent chargeable to tax [S.15(1)]			3,556,667
Less: Admissible deductions			
Repair allowance	(3,556,667 x 1/5)		(711,333)
Insurance premium			(240,000)
Collection charges lower of:			
- Actual charges		25,400	
- 4% of chargeable rent	(4% x 3,556,667)	142,267	(25,400)
Rent chargeable to tax		(A)	2,579,934

Share of Bashir	(2,579,934 (A) x 75%)		(B)	1,934,950
Share of Jameel	(2,579,934 (A) x 25%)		(C)	644,984

(W-2) Income from other source

Rent charged for utilities, cleaning and security	(186,000 x 10)	1,860,000
Less: Utilities, cleaning and security expense		(650,000)
		1,210,000

Answer-6

Rent Received	[S.15(1)]	2,300,000
Add: Municipal taxes paid by tenant	[S. 69]	100,000
		2,400,000
Less: Amount relating to next years	(600,000/3 x 2)	(400,000)
Gross rent chargeable to tax [S.15(1)]		2,000,000
Less: Admissible deductions		
Repair allowance	(2,000,000 x 1/5)	(400,000)
Property tax		(100,000)
Municipal/local government taxes		(100,000)
Income from property		1,400,000

Answer-7

Mr. Sohail
Taxable Income and tax thereon
For TY 2022

Income from Other source	[S.15(3A)]		
Amounting relating to security guard	(15,000 x 9)	135,000	
Less: Amount paid to security guard	(4,000 x 2 x 9)	(72,000)	63,000
Income from property	(W-1)		579,000
Taxable income – taxable under NTR			642,000
Tax Payable to Govt. (Table 1)	(10,000 + 10% x 42,000)		14,200

(W-1) Income from property

Annual gross receipt			1,200,000
Less: Income chargeable under the head Income from other source		(15,000 x 12)	(180,000)
			1,020,000
Less: Receipt relating to next year		(1,020,000 x 3/12)	(255,000)
Gross rent chargeable to tax [S.15(1)]			765,000
Less: Admissible deductions			
Repair allowance	(765,000 x 1/5)		(153,000)
Property tax			(20,000)
Insurance premium			(10,000)
Collection charges lower of:			
- Actual charges		3,000	
- 4% of chargeable rent	(4% x 765,000)	30,600	(3,000)
Rent chargeable to tax			579,000

Answer-8

Mr. Fahim
Taxable Income and tax thereon
For TY 20X5

Chargeable rent	[S.15(1)]	(180,000 x 11)			1,980,000
Non-adjustable amount received in TY 20X5				800,000	
Non-adjustable charged to tax:	[S.16(3)]				
TY 20X1		(400,000/10)		(40,000)	
TY 20X2	(400,000/10)			(40,000)	
TY 20X3	(400,000/10)			(40,000)	
TY 20X4	(400,000/10)			(40,000)	
				(160,000)	
				640,000	
Income of 20X5	(640,000/10)				64,000
Gross rent chargeable to tax [S.15(1)]					2,044,000
Less: Admissible deductions					
Repair allowance	(2,044,000 x 1/5)				(408,800)
Property tax					(15,000)
Profit paid on loan for renovation of house					(200,000)
Insurance premium					(110,000)
Collection charges lower of:					
- Actual charges	(5,000 x 11)		55,000		
- 4% of chargeable rent	(4% x 2,044,000)		81,760		(55,000)
Rent chargeable to tax					1,255,200

Answer-9

Income from property

				Rs.
Annual rent received		[S.15(1)]		1,150,000
Irrecoverable rent for the year				50,000
Non-adjustable amount	(100,000/10)	[S.16(1)]		10,000
				1,210,000
Less: Admissible deductions				
Repair allowance	(1/5 x 1,210,000)			(242,000)
Fire tax paid to local authority		[S.15A(1)(c)]		(20,000)
Lawyer's fee for suit to recover rent		[S.15A(1)(i)]		(50,000)
Collection charges and other admin (Lower of:)				
- Actual			46,000	
- 4% of 1,210,000			48,400	(46,000)
Insurance premium		[S.15A(1)(b)]		(200,000)
Bad debt				(50,000)
				602,000

Answer-10

Zahid
Computation of Taxable income and Tax thereon
For the year 20X9

			Rupees
Income from Property			
Rent from apartment	(W-1)		401,000
Rent from banglow	(W-2) (3,840,000 x 60%)		2,304,000
Income from Property			2,705,000
Income from other sources			
Amount charged for providing amenities, utilities etc.	[(100,000 -35,000) x 12] x 60%		468,000
Taxable income – taxable under NTR			**3,173,000**
(W-1) Rent from apartment			
Monthly rent			480,000
Non-adjustable Rent		300,000	
Less: Already taxed (In TY 20X4 - TY 20X8)	(175,000/10) x 5 years	(87,500)	
		212,500/10	21,250
			501,250
Less: Admissible deductions			
Repair allowance		(501,250 x 1/5)	(100,250)
Rent from apartment			401,000
(W-2) Rent from banglow			
Annual rent	[6,000,000 - (100,000 x 12)]		4,800,000
Less: Admissible deductions			
Repair allowance	(4,800,000 x 1/5)		(960,000)
			3,840,000

Answer-11

Where any property is owned by two or more persons and their respective shares are definite and ascertainable –

(a) the persons shall not be assessed as an AOP in respect of the property; and

(b) The share of each person in the income from the property for a tax year shall be taxable in their own hands respectively and not as AOP. [S.66]

Therefore, Yaqoot and Loha will pay tax separately on the income earned by them.
However, if the shares are not definite and ascertainable, then they will be assessed as an AOP in respect of income.

Answer-12

Same as Answer-2.

Answer-13

Where any property is owned by two or more persons and their respective shares are definite and ascertainable –

(a) the persons shall not be assessed as an AOP in respect of the property; and

(b) The share of each person in the income from the property for a tax year shall be taxable in their own hands respectively and not as AOP. [S.66]

However, if the shares of Imran and Farhan are not definite and ascertainable, then they will be assessed as an AOP in respect of income from building in Quetta.

Answer-14

Mr Farrukh
Taxable Income
Tax year 2022

Forfeited deposit [S.15(2)]			500,000
Rental Income from land [S.15(2)]			1,800,000
Higher of			
➢ Actual rent or (150,000 x 10) = 1,500,000			
➢ Fair market rent (2,160,000/12 x 10) = 1,800,000			
Non-adjustable amount of 200,000 (not taxable in case of land given on rent)			-
Gross			2,300,000
Less: Admissible deductions			
Repair allowance (not allowed for land given on rent)			-
Ground leveling charges			-
Insurance Premium			(62,000)
Collection charges and other admin (Lower of:)			
- Actual		140,000	
- 4 % of 2,300,000		92,000	(92,000)
Paid to professional valuer			-
Mark up on loan (6,500,000 x12% x10/12)			(650,000)
Income from property			1,496,000

PRACTICE QUESTIONS

Question-1

Mr. Sohail, a resident individual, owns a building in Clifton area of Karachi. On 1.7.2021 he rented out the building to Mr. Baqir at an annual rent of Rs. 1,600,000. This amount include Rs. 15,000 per month for arranging two security guards for the building. Following expenses were incurred by Mr. Sohail on the building during the tax year 2022:

	Rs.
Repairs and renovation	35,000
Property tax	20,000
Rent collection charges	10,000
Salary of security guards	70,000

Required: Under the provision of Income Tax Ordinance, 2001 calculate the tax liability of Mr. Sohail under the appropriate heads of income for the tax year 2022.

Answer-1

Mr. Sohail
Taxable Income and tax thereon
For TY 2022

Income from property	(W-1)		1,106,000
Income from Other source	(W-2)		110,000
Taxable income – taxable under NTR			1,216,000
Tax Payable to Govt. (Table 1)	(70,000 + 15% x 16,000)		72,400

(W-1) Income from property

Total gross receipt			1,600,000
Less: Income chargeable under the head Income from other source		(15,000 x 12)	(180,000)
Gross receipt chargeable under the head income from property			1,420,000
Less: Admissible deductions			
Repair allowance	(1,420,000 x 1/5)		(284,000)
Property tax			(20,000)
Collection charges lower of:			
- Actual charges		10,000	
- 4% of chargeable rent	(4% x 1,420,000)	56,800	(10,000)
Rent chargeable to tax			1,106,000

(W-2) Income from other source

Amounting relating to security guard	(15,000 x 12)	180,000
Less: Amount paid to security guard		(70,000)
		110,000

INCOME FROM CAPITAL GAIN 10

1. Capital gains [Sec. 37]
2. Deduction of losses in computing the amount chargeable under the head "Capital Gains". [Sec. 38]
3. Capital gain on disposal of securities [Sec.37A]
4. FIFO or weighted average
5. Capital loss adjustment disallowed [Rule 13 F]
6. Payment of advance tax on capital gain (securities) [Rule 13H]

CHAPTER 10
INCOME FROM CAPITAL GAIN

Capital gains [Sec. 37]

(5) **"Capital asset"** means property of any kind held by a person, whether or not connected with a business, but does not include –

(a) any stock-in-trade, consumable stores or raw materials held for the purpose of business;

(b) any property for which a depreciation or amortisation deduction is allowed under the head Income from Business; or

(d) any movable property held for personal use by the person or his family dependent. However following assets held for personal use by the person or his family dependent shall be considered as capital asset:

- (a) A painting, sculpture, drawing or other work of art;
- (b) jewellery;
- (c) a rare manuscript, folio or book;
- (d) a postage stamp or first day cover;
- (e) a coin or medallion; or
- (f) an antique.

Examples of capital assets:

Category 1

- A company that does not fall under public company definition
- Share of member in partnership firm
- Goodwill/Patent/Copyright

Category 2

A painting, sculpture, drawing or other work of art, jewellery, a rare manuscript, folio or book, a postage stamp or first day cover, a coin or medallion; or an antique held for personal use.

Note: These categories are only prepared for better understanding of students. They should not use the "category" word in paper.

Tax treatment of above mentioned categories

	Gain	Loss
Category 1	* Gain is income	Loss is allowed as deduction
Category 2	* Gain is income	Loss is not allowed as deduction
Exempt asset	Gain is not an income	Loss is not allowed as deduction

*Gain will be multiplied by 75% if holding period is more than 1 year.

(1) A gain arising on the disposal of a capital asset (other than a gain that is exempt from tax) shall be chargeable under the head "Capital Gain".

1. The gain is taxable in the year in which it is earned and not the year in which it is received. It means if we sell the shares in TY 2016 and receive cash in TY 2017, income will be taxed in TY 2016.
2. Capital gain exempt from tax
   - Transfer of stock exchange membership right
   - Gain on sale of shares of company setup in Export processing Zone

(2) The gain on the disposal of a capital asset shall be computed as follows:–

$$A - B$$

where –

A is the consideration received on disposal of the asset; and

B is the cost of the asset.

(3) Where holding period of a capital asset is more than 1 year, (other than shares of public companies including the vouchers of Pakistan Telecommunication Corporation, modaraba certificates or any instrument of redeemable capital as defined in the Companies Act, 2017), the gain on the disposal shall be calculated as follows:–

Amount of the gain determined under sub-section (2) x¾

If question is silent about the holding period, you should assume that holding period is more than 1 year.

(4) Cost [Component B in subsection (2)], shall not include any expenditure –
(a) which is deducted under another head of income; or
(b) which is not allowed as deduction under the head income from business (u/s 21).

Mr. Ali purchased shares costing Rs. 40 and also paid commission on purchase of Rs 5. After few days, shares are sold for Rs 120. Commission paid on sale amounted to Rs2. Fine paid to government at time of sale is Rs.7. Ali also incurred repair expense of Rs. 14 to earn income under the head Income from Other Source. Calculate gain/loss on disposal?

Consideration = A = 120
Cost = B = 40 + 5 + 2 = 47
Gain = A – B
Gain = 120 – 47 = 73

(4A) Where the capital asset becomes the property of the person-
(a) under a gift from a relative (as defined in sub-section (5) of section 85), bequest or will;
(b) by succession, inheritance or devolution;
(c) on distribution of assets on dissolution of an association of persons; or
(d) on distribution of assets on liquidation of a company,
the fair market value of the asset, on the date of its transfer or acquisition shall be treated to be the cost of the asset.
However, the Commissioner may treat such gift arrangement as part of tax avoidance scheme in case the capital asset acquired through gift is disposed of within 2 years of acquisition. In that scenario transferee shall be treated to have acquired the asset for a cost equal to the cost (instead of market value) of the transferor.

Example
Mr. Umer received Jewellery as gift from his father. Jewellery was purchased by his father for Rs. 10,000. Fair value of Jewellery at the time of transfer was Rs. 12,000 and Umer sold Jewellery for Rs. 15,000 after two months. Calculate gain/loss.
Cost = B = 12,000
Consideration = A = 15,000
Gain = A – B
Gain = (15,000 – 12,000) = 3,000

Question
How cost of capital asset is determined in various cases?
Answer
S. 37(4), (4A)

(3A) Gain arising on disposal of an immovable property shall be computed in accordance with the formula:

S.No.	Holding Period	Gain
1.	Where holding period of an immovable property does not exceed one year	A
2.	Where holding period of an immovable property exceeds one year but does not exceed two years	A x ¾
3.	Where holding period of an immovable property exceeds two year but does not exceed three years	A x ½
4.	Where holding period of an immovable property exceeds three year but does not exceed four years	A x ¼
5.	Where holding period of an immovable property exceeds four years	0

Where A is the amount of gain on disposal of an immovable property.

The tax will be calculated on **immovable property** at the following rates:

S. No.	Amount of gain	Rate of tax
1.	Where the gain does not exceed Rs. 5 million	3.5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	7.5%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	10%
4.	Where the gain exceeds Rs. 15 million	15%

Example

Mr. Umaid has disposed of an immovable property after holding it for a period of 2.5 years. It was purchased for Rs. 100,000 on 1 September 2016 and is sold for Rs. 150,000. Calculate tax payable?

Solution

Gain	(150,000 – 100,000) x 1/2	= 25,000
Tax liability	25,000 x 3.5%	= 875

Deduction of losses in computing the amount chargeable under the head "Capital Gains" [Sec. 38]

(1) For calculating "Capital Gain" for a tax year, a deduction shall be allowed for any loss on the disposal of a capital asset.

(2) Loss will not be allowed as deduction where gain on the disposal of asset is not chargeable to tax.

(3) The loss on the disposal shall be calculated as per following formula:–

$$A - B$$

where –

A is the cost of the asset; and

B is the consideration received on disposal of the asset.

(4) Cost [Component A in subsection (3)], shall not include any expenditure –

(a) which is deducted under another head of income; or

(b) which is not allowed as deduction under the head income from business (u/s 21).

(5) No loss shall be recognized on the disposal of the following capital assets, namely:–

a) A painting, sculpture, drawing or other work of art;

b) jewellery;

c) a rare manuscript, folio or book;

d) a postage stamp or first day cover;

e) a coin or medallion; or

f) an antique.

Question-1

Mr. Qasim disposed off the following assets during Tax Year 2012:

Assets	Date of purchase	Date of sale	Cost	Sale Proceed
Shares of AB Private Company	1.1.08	31.5.2012	40,000	70,000
Shares of DE Private Company	13.3.11	15.6.2012	20,000	5,000
Shares of D Public Unlisted Company	1.1.08	30.4.2012	30,000	20,000
Shares of N Public Unlisted Company	1.3.11	26.2.2012	60,000	200,000
Jewellery of his wife	13.7.07	15.8.2011	10,000	80,000
Painting	13.4.07	14.4.2012	90,000	20,000
Exempt Asset 1	13.4.07	14.4.2012	20,000	30,000
Exempt Asset 2	13.4.07	14.4.2012	25,000	5,000
Coin	13.4.07	14.4.2012	200,000	600,000
Car of son	13.4.07	14.4.2012	300,000	600,000
Home furniture	15.5.07	14.5.2012	3,000	1,500

He has also informed you that he has earned income from business of Rs. 900,000 during the year.
Calculate his tax liability?

Answer-1

Income from Capital Gain

AB Private Company	(70,000 – 40,000) x 75%	22,500
DE Private Company	(5,000 – 20,000)	(15,000)
D Public Unlisted Company	(20,000 – 30,000)	(10,000)
N Public Unlisted Company	(200,000 – 60,000)	140,000
Jewellery of his wife	(80,000 – 10,000) x 75%	52,500
Painting	(20,000 – 90,000)	-
Exempt Asset 1		-
Exempt Asset 2		-
Disposal of Coin	(600,000 – 200,000) x 75%	300,000
Disposal of Car of son		-
Disposal of Home furniture		-
		490,000
Add: Income from business		900,000
Total Income		1,390,000
Tax liability (Table 1)	(70,000 + 15% x 190,000)	98,500

Capital gain on disposal of securities [37A]

(1) The capital gain from disposal of securities (other than gain that is exempt from tax) shall be chargeable to tax at prescribed rates.

Provisions of section 37A shall not apply to the following persons:

1. a banking company,
2. a non-banking finance company,
3. an insurance company
4. a modaraba
5. a company, in respect of debt securities only and

(1A) The gain on the disposal of a security shall be calculated as follows:-

$$A - B$$

Where –

'A' is the consideration received on disposal of the security; and

'B' is the cost of acquisition of the security.

(2) The holding period of a security shall be counted <u>from the date of acquisition to the date of disposal</u>.

(3) "<u>Security</u>" means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, debt securities, units of exchange traded fund and derivative products.

> Note:
> 1. Units of mutual fund also fall under the definition of securities.
> 2. For definition of public company refer the chapter of definitions.

"bonus shares"
includes bonus units in a unit trust.

Derivative Products
"Derivative products" means a financial product which derives its value from underlying security, may be traded on stock exchange and includes deliverable future contracts.

(3A) For the purpose of this section, "debt securities" means—
a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificated (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificated (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company registered in Pakistan; and
b) Government Debt Securities such as Treasury Bills (T-Bills), Federal Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments.

(3B) For the purpose of this section, "shares of public company" shall be considered as security if such company is a public company at the time of disposal of such shares.

(4) Gain on securities shall be treated as a separate block of income.

(5) Loss on disposal of securities in current year shall be setoff only against the gain from any other securities. Loss that has not been set off in current year can be carried forward to the subsequent 3 tax years from the tax year in which loss was first computed. However, loss can be adjusted only against the gain from disposal of securities.

Example

Mr. Ayaz sold the shares of following listed companies in TY 2020:
- Company A at a gain of Rs. 10,000
- Company B at a loss of Rs.12,000

Required: Calculate the taxable income of Mr. Ayaz.

Calculation of Taxable income

Description	**Amount (Rs.)**
Gain on disposals of shares of company A	10,000
Loss on disposals of shares of company B	(12,000)
	(2,000)

- Loss on disposal of securities can be carried forward under Income Tax Ordinance, 2001 for next three years

Rates of tax for securities

S. No.	Period	TY 2022	
		Securities acquired before 01.07.2016	**Securities acquired after 01.07.2016**
1.	Where holding period of a security is less than 12 months	15%	12.5%
2.	Where holding period of a security is 12 months or more but less than 24 months	12.5%	
3.	Where holding period of a security is 24 months or more but the security was acquired on or after 1.7.2013	7.5%	
4.	Where the security was acquired before 1st July, 2013	0%	0%

Question-2

Mr. Ibtisam has disposed off the following assets in TY 2022:

Assets	Date of purchase	Date of sale	Cost	Sale Proceed
Shares of AB Private Company	1.1.2014	1.1.2022	300,000	900,000
Shares of GE unlisted	1.1.2013	31.3.2022	30,000	10,000
Shares of R listed company	18.7.2016	15.10.2021	60,000	75,000
Shares of P listed company	20.5.2017	25.10.2021	35,000	25,000

He has also informed you that he has earned income from business of Rs. 1,000,000 during the year.

Calculate his tax liability?

Answer-2

Income from business			1,000,000
Income from capital gain			
- AB Private Company	(900,000 – 300,000) x 75%	450,000	
- GE unlisted Company	(10,000 – 30,000)	(20,000)	430,000
Income from capital gain – Securities	(W-1)		5,000
Total income			1,435,000
Less: Gain on securities – taxable separately			(5,000)
Taxable income – taxable under NTR			1,430,000
Tax liability on taxable income under NTR	(70,000 + 230,000 x 15%)		104,500
Add: Tax liability on securities (W-1)	(5,000 x 12.5%)		625
Total tax liability			105,125
(W-1) Tax on securities			
Acquired on or after 1.7.16			
R Co.	(75,000 – 60,000)		15,000
P Co.	(25,000 – 35,000)		(10,000)
			5,000

FIFO or weighted average

Gain on security shall be computed on the basis of First in First out (FIFO) method.
If shares are sold on same day, average method will apply.

Capital loss adjustment disallowed (Rule 13 F)

Capital loss adjustment shall not be admissible in the following cases, namely

1. Wash Sale

If an investor sustains loss on disposal of a security and in one month's period he or his related party purchases the same security, thus maintaining his portfolio.

2. Cross Trade

Where coordinated reshuffle of securities between two related accounts of the same investor (or between two related brokerage houses) is undertaken to artificially realize capital losses without selling the securities to an outsider.

3. Tax Swap Sale

In this case investor who realized loss does not repurchase the same security. In this case he chooses another similar security in same sector. Through this he has eliminated tax liability and has also maintained the portfolio at the same risk return profile

Payment of advance tax on capital gain (securities) (Rule 13H)

Every investor other than individual shall e-file statement of advance tax on capital gain within 21 days after the end of each quarter and will pay the tax.

Note

If the sole business of a company is to manage its investment in different subsidiaries then income of company would be:

- dividend income and
- capital gains.

Such income of the company would be chargeable to tax under the head income from business.

Employee share schemes [Sec. 14(4)]

Where shares are issued to an employee as a result of employee share scheme, the cost of the shares to the employee shall be the sum of –

(a) the consideration, if any, given by the employee for the shares;
(b) the consideration, if any, given by the employee for the grant of any right or option to acquire shares; and
(c) the amount chargeable to tax under the head "Salary" under those sub-sections.

Question-3 (Salary Income and Capital Gain Income)

Mr. Asim is working as a CFO in Ammar (Pvt.) Ltd. He has purchased a right on February 1, 2007 to purchase 700 shares of company by paying Rs. 2,800 as cost against right. Exercising the rights he purchased the shares on May 1, 2007 by paying Rs. 43 per share. All shares were sold by him on April 1, 2011.Details of market price per share:

Date	FMV/ share
February 1, 2007	35
May 1, 2007	75
April 1, 2011	90

Calculate income for relevant years under relevant heads?

Answer-3

TY 2007 (Salary Income)		
Fair market value on the date of transfer of shares	(700 x 75)	52,500
Less: Cost paid for shares	(700 x 43)	(30,100)
Less: cost paid for right		(2,800)
Salary Income		**19,600**
TY 2011 (Capital Gain Income)		
Sale Proceeds from disposal of shares	(700 x 90)	63,000
Less: Cost of shares (W)	(700 x 75)	(52,500)
Gain on disposal		10,500
Chargeable Capital Gain	(10,500x75%)	**7,875**

(Working)Cost per share of shares issued under employee share scheme

Description	**Rs.**
Consideration paid by employee per share	43
Cost of right per share (2,800/700)	4
Amount chargeable under salary (19,600/700)	28
Total Cost per share	**75**

Question-4

On 1 April 2014 Rabia Sold 15,000 shares in Sun Electric (Pvt) Ltd for Rs. 600,000 which she had acquired on 1 July 2010 from her ex-employer under an employee share scheme for Rs. 150,000. She had the option to dispose of the shares on or after 1 July 2012.

The fair values of the shares were as below:

- Rs. 20 per share on 1 July 2010
- Rs. 30 per share on 1 July 2012
- Rs. 45 per share on 1 April 2014

Compute Ms. Rabia's taxable income for Tax Year 2014.

Answer-4

Disposal of shares in Sun Electric (Pvt) Ltd			
Consideration received (higher of)			675,000
- Actual amount	600,000		
- FMV of shares (15,000 x 45)	675,000		
Less: Cost of shares			
- Consideration given by employee for shares		150,000	
- Amount charged under head Salary (W-1)		300,000	(450,000)
			225,000
Chargeable gain	(225,000 x 75%)		**168,750**

(W-1) Income from Salary – TY 2013

FMV at 1.07.12	(30 x 15,000)	450,000
Less: Cost of shares		(150,000)
		300,000

Question-5

Ms. Faiza had received 50,000 shares in SP (Pvt) Ltd on 1 January 2008 under an employee share scheme at Rs. 10 per share against a fair value of Rs. 30 per share. She had the option to transfer the shares on or after 1 January 2009 on which date the fair value was Rs.40 per share. However, she sold all of the shares on 1 April 2012 at Rs. 50 per share.

Compute her Taxable Income under the head "Salary" and "Capital Gain" in respective years?

Answer-5

Income From Salary- Tax Year 2009

		Rs.	Rs.
Fair Market Value of shares on 1.1.2009	(50,000 x 40)		2,000,000
Less: Consideration given	(50,000 x 10)		(500,000)
			1,500,000

Income from Capital gain – Tax Year 2012

Consideration received	(50,000 x 50)		2,500,000
Less: Cost of shares			
- Price paid at the time of exercise of option	(50,000 x 10)	500,000	
- Amount Chargeable under the head salary	(as above)	1,500,000	(2,000,000)
Taxable gain			**500,000**
	(500,000 x 75%)		375,000

Question-6

Prior to his self-employment as a broker, Saleem, as the investment manager of Securities Pakistan Limited, a subsidiary of Securities Private Limited Company, had participated in an employee share scheme of Securities Private Limited Company. The details of the transactions relating to the employee share scheme are as follows:

- On 1 January 2003 (tax year 2003), Saleem had exercised his right to acquire 1,000 shares in Securities plc by making payment of £5 per share. The market price of one share on that date was £15 and the exchange rate was £1 = Rs.100
- On 30 June 2004 he disposed of his entire holding of 1,000 shares in Securities plc for Rs.2,000,000.

Compute Mr. Saleem,s Taxable Income under the head "Salary" and "Capital Gain" for respective years.

Answer-6

Income From Salary- TY 2003

		Rs.	Rs.
Fair Market Value of shares on 1.1.2003	(1,000 x 15 x 100)		1,500,000
Less: Consideration given	(1,000 x 5 x 100)		(500,000)
			1,000,000

Income from Capital gain- TY 2004

Consideration received			2,000,000
Cost of shares			
Consideration given at exercise of option	(1,000 x 5 x 100)	500,000	
Amount Chargeable under the head salary		1,000,000	(1,500,000)
Taxable gain			**500,000**
	(500,000 x 75%)		375,000

ICAP PAST PAPER QUESTIONS

Question-1

Discuss which assets are not considered capital assets for the purpose of determining income under the head Capital Gains. **(5)**

(Q.4 (b) March 2005)

Question-2

(a) Explain the term "Capital Assets" as referred to in the Income Tax Ordinance, 2001. **(5)**

(b) Mr. Shahbaz, a resident individual, earned Rs. 850,000 from the sale of assets as shown below:

	Purchase		Sale		Gain/ (loss)
	Date	Price Rupees	Date	Price Rupees	Rupees
Shares of an unlisted company	15/07/08	500,000	30/11/09	900,000	400,000
Jewellery	15/05/08	750,000	20/12/09	1,400,000	650,000
Sculpture	01/07/05	400,000	31/01/10	300,000	(100,000)
Shares of a (Pvt.) Limited Co.	01/01/09	1,300,000	15/02/10	1,200,000	(100,000)

Required:

Discuss the treatment and the implications of each of the above transactions under the Income Tax Ordinance, 2001, giving brief reasons to support your conclusion. **(4)**

(Q.6 March 2010)

Question-3

Mr. Feroz has been the CEO of Aziz Foods Pakistan Limited (AFPL) for several years. He was given 2000 shares on 1 June 2009 by Aziz AG, Germany (the parent company of AFPL) at a price of €2.5 per share. The market price on that date was €8.2 per share. The shares were transferable on completion of one year of service, from the date of issue of shares.

The market price of the shares as on 1 June 2010 was €12.5 per share, On 10 April 2011, Mr. Feroz sold all shares at €13 per share. He paid a commission of €50 to the brokerage house.

The relevant exchange rates are as follows:

I June 2009	€1 = Rs. 118.10
1 June 2010	€1 = Rs. 121.40
10 April 2011	€1 = Rs. 123.90

Required:

Compute the amount to be included in the taxable income of Mr. Feroz for tax years 2009, 2010 and 2011 and specify the head of income under which the income would be classified. **(7)**

(Q.5 September 2011)

Question-4

In May 2012, Hameeda sold certain personal assets at the following prices:

	Rupees
Plot in DHA Karachi	10,000,000
Paintings	2,000,000
Jewellery	5,000,000

Additional information:

(i) Plot in DHA Karachi was inherited by her from her father in January 2011. It was purchased by her father for Rs. 4,000,000 and market value at the time of inheritance was Rs. 5,000,000.

(ii) Paintings were inherited from her mother in July 2011. These paintings were purchased by her mother for Rs. 1,000,000 and market value at the time of inheritance was Rs. 2,350,000.

(iii) Jewellery costing Rs. 3,000,000 was purchased and gifted to her by her husband in March 2009.

Required:

Discuss the taxability of Hameeda in respect of the above gains/ losses on sale of assets in the context of Income Tax Ordinance, 2001. **(6)**

(Q.5(a) September 2012)

Question-5

(a) Explain the term 'Capital asset' as referred to in the Income Tax Ordinance, 2001. (4)

(b) Gulzar is a Pakistani resident and operates various businesses. He disposed of the following assets during the tax year 2018:

(i) An immovable property was sold for Rs. 50 million. The cost of the immovable property was Rs.25 million. Tax depreciation of Rs. 4 million had been allowed on the immovable property up to the tax year 2017. (2)

(ii) A car was disposed of for Rs.1.2 million. The car was acquired on 1 July 2016. The tax written down value of the car at the beginning of tax year 2018 was Rs. 0.9 million. The car was being used partly (70%) for business purposes. The rate of depreciation for tax purposes is 20%. (2)

(iii) An antique sculpture was purchased for Rs. 350,000 on 30 August 2000. It was sold for Rs.1,500,000 on 28 February 2018 through auction. The auctioneer was paid a commission of Rs.150,000. Tax was deducted and paid by Gulzar from the amount of commission within due date. (2)

(iv) Listed securities were sold as follows: (2)

Securities	Date of Purchase	Purchase cost (Rs.)	Date of sale	Sale proceeds (Rs.)
A	20 November 2017	500,000	17 March 2018	400,000
B	05 August 2017	320,000	08 June 2018	600,000
C	01 June 2016	650,000	17 June 2018	700,000

Required:

Compute the amount of capital gain/loss arising on the above transactions under the provisions of the Income Tax Ordinance, 2001 (3)

Question-6

(Q.3 September 2013)

Zaman is working as the Chief Executive Officer in Yasir Limited (YL). Following are the details of sale and purchase relating to his capital assets during the tax year 2014.

(a) Under an employee share scheme, 25,000 shares of YL were allotted to Zaman, on 1 December 2011 for Rs. 25 each. According to the scheme, he was not allowed to sell/transfer the shares before completion of two years from the date of transfer. The face value of each share is Rs. 10 per share. Fair market value of the shares was as follows:

- Rs. 40 per share on 1 December 2011
- Rs. 48 per share on 30 June 2012
- Rs. 55 per share on 30 November 2013
- Rs. 61 per share on 30 June 2014

(b) He sold 24,000 shares of HQ (Pvt.) Limited on 30 June 2014 for Rs. 200 per share. He had acquired these shares as follows:

- 18,000 shares were purchased at Rs. 55 per share on 25 June 2013.
- 6,000 shares were allotted as bonus shares on 28 February 2014having fair value of Rs. 41.25 per share.

(c) A gain of Rs. 300,000 was realized on the sale of shares of Zeeshan Industries Limited (ZIL), a public listed company, in June 2014. The shares were acquired on 31 Jan 2014.

(d) Zaman sold a painting to his brother on 23 March 2014 for Rs. 1,800,000. Zaman had purchased this painting for his residence, in an auction for Rs. 2,000,000 on 10 July 2011.

(e) He sold his old furniture to Furqan for Rs. 285,000 on 25 June 2014. The furniture was purchased in 2012 for Rs. 250,000.

Required:

Compute the amount to be included in the taxable income of Zaman for the tax year 2014 and specify the head of income under which the income would be classified. (10)

(Q.3 September 2014)

Question-7

(a) What do you understand by the terms 'Security' and 'Derivative products' as provided in the Income Tax Ordinance, 2001 and Rules made thereunder? **(03)**

(b) Under the provisions of the Income Tax Ordinance, 2001 compute taxable gain or loss, under the correct head of income, in each of the following cases. Also identify, giving reasons, whether the company is a public or private company for tax purposes:

(i) Ashiq has 5,000 shares in Rumi (Pvt.) Limited (RPL). 52% of the shares of RPL are held by Delta Plc. which is owned by the British Government. Ashiq inherited these shares from his father on 1 January 2021. His father had purchased these shares on 31 May 2019 at a price of Rs.250 per share. The market value of these shares at the time of inheritance was Rs.300 per share.
On 30 June 2022 Ashiq sold 2,500 shares in RPL at a price of Rs. 325 per share when the break-up value of RPL was Rs. 350 per share. **(04)**

(ii) What would be your answer in (i) above, if 40% of the shares of RPL were held by the Provincial Government, 48% by the British Government and 12% by individual investors. **(03)**

(Q.4 September 2015)

Question-8

Najam had purchased a house in 20X1 for Rs. 20 million.

On 1 July 20X6, Najam entered into an agreement with Zameer for sale of the house for Rs. 25 million. As per the terms of the agreement, Najam received Rs. 5 million on the day the contract was signed and balance amount was to be paid on 30 September 20X6. However, due to financial difficulties, Zameer failed to pay the balance amount on the due date and consequently, Najam forfeited the advance in accordance with the terms of the agreement.

On 15 February 20X7 Najam sold the house to Farid for Rs. 30 million.

Required:

Advise Najam about the taxability of the above transaction under the Income Tax Ordinance, 2001. **(04)**

(Q.3 (b) March 2017)

Question-9

Saleha is a resident person. She disposed of the following assets during the tax year 20X7.

(i) A painting which she inherited from her father was sold for Rs. 1,250,000. The market value of the painting at the time of inheritance was Rs. 1,550,000. The painting was purchased by her father for Rs. 1,000,000. **(02)**

(ii) She sold jewellery for Rs. 2,300,000 which was purchased by her husband in March 20X5 for Rs.1,300,000 and gifted to her on the same date. **(02)**

(iii) She disposed of her car for Rs. 1,800,000. The car was being used for the purposes of her business. The tax written down value of the car at the beginning of tax year 20X7 was Rs. 1,600,000. The rate of depreciation for tax purposes is 20%. **(02)**

(iv) On 20 October 20X6 she sold a dining table to Faheem for Rs. 18,000 which she had purchased on 15 May 20X5 for Rs. 15,000 for her personal use. **(02)**

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the taxability of each of the above transactions in the context of capital gain/loss.

(Q.2 (b) March 2017)

Question-10

Zaheer sold a painting to his brother on 10 April 2017 for Rs. 2,000,000. Zaheer had purchased this painting for his residence, in an auction on 14 August 2013 for Rs. 1,800,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute taxable income or loss, under the correct head of income for tax year 2017.

(02)

(Q.3 (b) September 2017)

Question-11

Haris sold two of his personal vehicles during the current year and earned profit of Rs. 550,000. ***Discuss the taxability of profit earned by Haris in the context of capital gain/loss.***

(02)

(Q.3 (b) September 2019)

ICAP PAST PAPER SOLUTIONS

Answer-1
Assets listed in Sec. 37(5)

Answer-2
a) S. 37(5)
b)
i) It is a taxable gain. However, since Mr. Shahbaz held the shares for more than one year, only 75% of gain is taxable.
ii) It is a taxable gain. However, since he held the jewellery for more than one year, only 75% of gain is taxable.
iii) Loss from sales of sculpture is not allowed to be recognized.
iv) It is a taxable loss and it can be set off against capital gains only.

Keeping in view the above explanation following is the taxable income:

Item	Description	Calculation	Gain/(loss)
ii)	Shares of an unlisted company	400,000 x 75%	300,000
iii)	Jewellery	650,000 x 75%	487,500
iv)	Shares of a (Pvt.) ltd. Company		(100,000)
Taxable Income			**687,500**

Answer-3

TY 2009
Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares no amount shall be chargeable to tax to the employee under the head "Salary" until the employee has a free right to transfer the shares. So nothing is chargeable to tax in TY 2009 [S.14(3)].

TY 2010
Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares the amount chargeable to tax to the employee shall be the fair market value of the shares at the time the employee has a free right to transfer the shares or as reduced by any consideration given by the employee for the shares. The amount chargeable to tax is calculated as below:

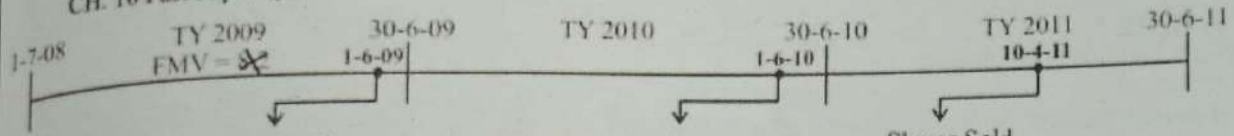
		Rs.
Fair market value of the shares at the time the employee has a free right to transfer the shares	(12.5 x 2,000 x 121.40)	3,035,000
Less: Consideration given by the employee for the shares	(2.5 x 2,000 x 118.10)	(590,500)
Amount chargeable under the head salary		**2,444,500**

TY 2011
The gain arising on disposal is chargeable under the head capital gain.
For determining cost we will add up following: [S.14(4)]
- the consideration, if any, given by the employee for the shares;
- the amount chargeable to tax under the head "Salary".

		Rs.
Consideration received	(13 x 2,000 x 123.90)	3,221,400
Less: Cost of shares	(590,500 + 2,444,500)	(3,035,000)
Less: Commission to brokerage house	(50 x 123.90)	(6,195)
Gain		180,205
Amount chargeable under the head capital gain	(180,205 x 75%)	**135,154**

Diagrammatic presentation for above Question

CH. 10 Past Paper Q.3



Received shares / purchased shares

With restriction

X

Restriction released

IFS

	(000)
FMV Share	
(2,000 shares x (12.5 x Rs.121.4))	3035
Less: Cost of share	
(2,000 shares x (2.5 x Rs. 118.1)	(590.5)
IFS	2,444.5

Shares Sold

IFCG

	(000)
Consideration received (2,000 x (13 x Rs. 123.90))	3,221.4
Less: Cost	
a Cost of share	(590.5)
b Cost of right	(0)
c IFS	(2,444.5)
Less: Commission (50 x 123.90)	(6.195)
	180.205
Taxable (180.205 x 75%)	135.154

Answer-4

i) The plot was acquired as a result of inheritance from father. The cost of the plot will be considered as the fair market value on the date of transfer i.e. Rs. 5,000,000. The plot was sold for Rs. 10,000,000 at a gain of Rs.5,000,000. As the holding period of immoveable property exceeds one year but does not exceed two years, 3/4 of gain will be chargeable to tax. It is chargeable as separate block of income.

ii) Loss on sale of painting (2,000,000 – 2,350,000) Rs. (350,000) will not be allowed as deduction[S.38(5)]Market Value of the painting at the time of inheritance i.e. Rs. 2,350,000 will be taken the cost of the asset while calculating gain/loss on sale. Loss arising on painting will not be recognized.

iii) Gain on sale of jewellery (5,000,000 – 3,000,000) Rs. 2,000,000 x 75% = Rs. 1,500,000 will be chargeable to tax as the holding period of jewellery is more than one year. Cost of Rs. 3,000,000 will be assumed to be the market value of jewellery.

Answer-5

a) S.37(5)

b)

(i) As depreciable assets are specifically excluded from definition of capital asset, so no capital gain loss will arise.

(ii) As depreciable assets are specifically excluded from definition of capital asset, so no capital gain loss will arise.

(iii)

Consideration		1,500,000
Less: Cost		
Purchase price	350,000	
Commission paid	150,000	(500,000)
Gain		1,000,000
Gain chargeable (1,000,000 x 75%)		750,000

(iv)

Acquired after 1.7.16		
A	(400,000 – 500,000)	(100,000)
B	(600,000 – 320,000)	280,000
Net gain		180,000
Acquired before 1.7.16and after 1.7.13		
C	(700,000 – 650,000)	50,000

Answer-6

Amount to be included in taxable income is Rs. 3,660,000 which is calculated as below:

Income from salary			
Shares on which restriction is released			
Fair market value	(55 x 25,000)	1,375,000	
Less: Cost of shares	(25 x 25,000)	(625,000)	750,000
Income from capital gain			
Gain on 18,000 shares[(18,000 x 200) - (18,000 x 55)] x 75%		1,957,500	
Gain on 6,000 shares	[(6,000 x 200) - (6,000 x 41.25)]	952,500	2,910,000
Gain on securities – Zeeshan Industries Limited			300,000
Total income			3,960,000
Less: Gain on securities – taxable separately			(300,000)
			3,660,000

- Loss arising on sale of painting is not allowed as deduction, therefore it is not included in taxable income.[S.38(5)]
- Personal furniture is not a capital asset as per the definition of capital asset, therefore it is ignored.[S.37(5)]

Answer-7

(a)

Security

Security means share of a public company, voucher of Pakistan Telecommunication Corporation; Modaraba Certificate, an instrument of Redeemable Capital debt securities, units of exchange traded fund and derivative products.

Shares of public company shall be considered as security if such company is a public company at the time of disposal of such shares.

Derivative products

"Derivative products" means a financial product which derives its value from underlying security, may be traded on stock exchange and includes deliverable future contracts.

(b)

(i) As more than 50% shares of RPL are held by a foreign company which is owned by the British Government so, as per S.47 RPL is a public company and fall under the definition of securities.

Gain on disposal of securities

Consideration received (2,500 x 350)	875,000
Less: Cost of shares (2,500 x 300)	(750,000)
Gain on securities	125,000

Note: Consideration as per section 77 is higher of actual sale proceeds or break-up value.

(ii) In this case Provincial Government and British Government both own less than 50% shares so it is not a public company and its gain is taxable under the head capital gain.

Gain on disposal taxable under the head capital gain

Consideration received (2,500 x 350)	875,000
Less: Cost of shares (2,500 x 300)	(750,000)
Gain on disposal	125,000
Taxable gain (125,000 x 75%)	93,750

Answer-8

Forfeited deposit of Rs. 5 million

Any forfeited deposit paid under a contract for the sale of land or a building falls under the definition of rent. Therefore Rs. 5 million received is chargeable under the head income from property.

Sale proceeds from disposal of house

Gain on disposal of immoveable property (house) amounting to Rs. 10 million (30 mill – 20 mill) falls under the head capital gain. As the holding period of house (immovable property) is more than 4 years so gain is not taxable. [S.37 (3A)]

Answer-9

(i) Personal painting falls under the definition of capital asset. Its cost will be the market value at the time of inheritance. Loss on sale of painting amounting to Rs. 300,000 (1,250,000 – 1,550,000) will not be allowed as deduction. [S.38(5)]. Further the cost to father of Rs. 1,000,000 will be ignored while calculating the gain in the hands of Ms. Saleha.

(ii) Personal jewellery falls under the definition of capital asset. Its cost will be the market value at the time of gift. Gain on sale of jewellery amounting to Rs. 1,000,000 (2,300,000 – 1,300,000) is chargeable to tax under the head capital gain however it will be restricted to 75% as the holding period of capital asset is more than one year.

(iii) As depreciable assets are specifically excluded from definition of capital asset, so no capital gain loss will arise.

(iv) Dining table is a personal moveable asset that does not fall under the definition of capital asset. Thus gain or loss on disposal of dining table will not be recorded.

Answer-10

Income from capital gain (Gain on disposal of painting)

	Rs.
Consideration received	2,000,000
Less: Cost	(1,800,000)
Gain	200,000
Gain restricted to 75% as holding period is more than 1 year	**150,000**

Answer-11

Under the ITO,2001 any movable property held for personal use is excluded from the definition of capital assets. Therefore, income from sale of personal vehicles is not taxable under any head of income.

OTHER QUESTIONS

a) Which personal assets are considered to be capital assets?	Sec. 37(d)
b) True/False (i) Gain arising on sale of antique is chargeable under income from other sources. (ii) Consideration received from vacating the property is chargeable under the head capital gain. (iii) Gain arising on the sale of jewelry is not chargeable under the head capital gain. (iv) Loss arising on sale of home furniture is allowed as deduction. (v) Gain arising on sale of option which is received as a result of employee share scheme is chargeable under the head capital gain. (vi) First day cover is not a capital asset. (vii) Gain arising on sale of jewelry inherited from father is not chargeable to tax. (viii) Loss arising on disposal of private company shares having holding period of greater than 12 months is only allowed 75%.	False False(Sec.39(1)(k)) False(Sec.37(5)(d)) False False (Sec.14) False(Sec.37(5)(d)) False False

INCOME FROM OTHER SOURCES

11

1. Income from other sources (IFOS) [Sec. 39]
2. Deductions in computing income chargeable under the head "Income from Other Sources" [Sec. 40]
3. Tax on profit on debt (interest income) [Sec. 7B]

CHAPTER 11
INCOME FROM OTHER SOURCES

Income from other sources (IFOS) [Sec. 39]

(1) Income of every kind received by a person in a tax year, if it is not included in any other head (other than income exempt from tax), shall be chargeable to tax under the head "Income from Other Sources", including:

> Following is the criteria for classifying an income under the head IFOS.
> - It must be income as per definition of income.
> - It is not chargeable under any other head.
> - It is not exempt from tax.
> - It does not fall under final tax regime.

a. Dividend;

> Pakistan source income dividend received by an individual is already covered under section 5 as FTR (final tax) income.
> However if dividend received is foreign source income it is chargeable under the head "Income from Other Source".

b. royalty;

c. profit on debt;

> Profit on debt falls under final tax regime in case of all persons except company.

cc. additional payment on delayed refund under any tax law.

> Example
> Mr. Anjum paid tax amounting to Rs. 28 million for tax year 2016. Later on he realized that he has made an excess payment of Rs. 8 million therefore he filed a refund application. Tax authorities agreed to make refund. However the refund was delayed by tax authorities and consequently Mr. Anjum received Rs. 8.4 million (it includes Rs. 0.4 million as additional payment on delayed refund).
> Analysis
> Rs. 0.4 million that is paid in excess of Rs. 8 million will be treated as "additional payment on delayed refund" and is chargeable under the head "Income from Other Source".

d. ground rent;

> - Brain company is in search of land for construction of its office premises. Mr. Aslam has approached the company to provide a piece of land owned by him in an urban area. As per the terms of contract it has been decided that the company will not purchase the land rather it will construct the office on the land owned by Mr. Aslam and will pay monthly rentals for it. The amount received by Mr. Aslam will be treated as "ground rent" chargeable under the head IFOS.
> - It is important to mention here that rent received from an open plot of land is already covered under section 15 and is chargeable under the head IFP. In the above example the plot of land do not remains open after construction therefore rent received is chargeable under the head IFOS as ground rent.

e. rent from the sub-lease of land or a building;

> The rent received by a person being owner of land or a building is chargeable under head IFP. If the above land or building is given on sub-lease, than amount received by the tenant will be chargeable under the head IFOS.
> **Example** Mr. Asif has let-out a shop on September 1, 2010 owned by him to Mr. Bilal. The shop comprises of two rooms and for each room a monthly rental of Rs. 15,000 is agreed. On December 1, 2010 Mr. Bilal decided to give one of the rooms to Mr. Amir against a monthly rent of Rs. 20,000.
> Calculate the taxable income of Mr. Asif and Mr. Bilal for tax year 2011 under the relevant heads.
> **Solution**

Mr. Asif		
Rental	(15,000/month x 2 rooms x 10 month)	300,000
Mr. Bilal		
Income from other sources		
Rent received	(20,000/month x 1 room x 7 months)	140,000
Rent paid for above room	(15,000/month x 1 room x 7 months)	(105,000)
		35,000

f. income from the lease of any building together with plant or machinery;

Example
Mr. Amir has rented out his shoe factory alongwith plant and machinery to Mr. Babar against a monthly rental of Rs. 30,000 per month. The whole rental received by Mr. Amir will fall under the head Income from Other Source.

fa. income from provision of amenities, utilities or any other service connected with renting of building;

Already covered in section 15 (3A). Only portion of rent related to amenities, utilities, and services connected with renting of building will be charged to tax under the head IFOS.

g. any annuity or pension;

Pension received by an employee from its employer is chargeable under the head income from salary. However, pension schemes are not necessarily due to relationship of employer and employee. If the pension is received from a person other than an employer then this will fall under the head IFOS.

h. any prize bond, or winnings from a raffle, lottery prize on winning a quiz, prize offered by companies for promotion of sale or cross-word puzzle;

i. any amount received for the provision, use or exploitation of property, including the grant of a right to explore natural resources;

Example Mr. Ahsan is the owner of a farm in outskirts of Baluchistan. A team of gem stone experts approaches him and makes him aware of the fact that there may be a possibility of treasure underneath his farm. Mr. Ahsan has no necessary knowledge and investment to explore the treasure, he permitted the experts to exploit the property against consideration of Rs. 125,000 per month. This amount will be treated as "Income from other sources" for Mr. Ahsan.

j. the fair market value of benefit received for provision, use or exploitation of property;

Example Assume in the above example Mr. Ahsan allowed to use the property against 20% share of gold extracted. He received his share of gold on May 15, 20X0 on which date the fair market value of his share was Rs. 500,000. The amount will be chargeable under the head "Income from other sources".

k. any amount received by a person as consideration for vacating the possession of a building (or part thereof), reduced by any amount paid by the person to acquire possession of building (or part thereof) shall be chargeable under the head "Income from Other Sources" in the tax year in which it was received and the following 9 tax years in equal proportion; [also 39(2)]

Example
Mr. A has shop in Shah Alam Market. He vacated the possession of property in TY 2010 and received Rs.600,000 from Mr. B to whom property is handed over. Earlier in TY 2005, Mr. A had paid Rs. 200,000 when Mr. S handed over property to him. Calculate income of Mr. A chargeable to tax for TY 2010.

Answer
Rs. 40,000 {(600,000-200,000)/10} is chargeable to tax under the head "Income from Other Sources".

l. any amount received from Approved Income Payment Plan or Annuity Plan under Voluntary Pension System Rules, 2005; and

la. any amount or fair market value of any property received without consideration or received as gift. However, if gift is received from relatives (as defined in Chapter 5), it will not be included in income from other source.

Example
Mr. Kamran received following gifts on 01 Sept 10:

- Jewelry from friend (Fair value)	250,000
- A painting from sister (Fair value)	300,000

He sold both on 31 March 11 for Rs.290,000 and Rs.310,000 respectively

Required: Calculate Taxable income for TY 2011.

Solution

		Rs.
Income from other source		
- Gift from friend		250,000
- Gift from sister [S.39(la)]		-
Income from capital gain		
- Disposal of Jewelry	(290,000 – 250,000)	40,000
- Disposal of painting	(310,000 – 300,000)	10,000
		50,000
Taxable income		300,000

(3) Subject to sub-section (4), any amount received as:

- loan,
- advance,
- deposit for issuance of shares or
- gift

by a person in a tax year from another person (not being a banking company or financial institution) otherwise than by:

- a crossed cheque drawn on a bank or
- a banking channel from a person holding a National Tax Number

shall be treated as "Income from Other Sources" for the tax year in which it was received.

Summary of above provision

If a person is holding NTN	If a person is not holding NTN
He should make the payment to anyone through following modes: - Cross cheque, or - Any other banking channel.	He should make the payment to anyone through following mode: - Cross cheque

Example-1

Mr. Asif has obtained following amounts which are examples of Income from Other Source:

i) Loan received from grandmother in cash.
ii) Loan received from uncle (not having NTN) through online transfer.
iii) Gift received from mother in cash.

Example-2

Rise Canteen owner received the following amounts:

- Loan of Rs. 20,000 is received in cash from a student (not having a NTN).
- Loan of Rs. 25,000 is received from teacher A (having NTN) in cash.
- Loan of Rs. 28,000 is received from teacher B (having NTN) through cross cheque.
- Loan of Rs. 30,000 is received from a student (not having NTN) through online transfer.

Answer

Income from other source

Particulars	(Rs.)
Loan from student (not having NTN)	20,000
Loan from teacher A in cash	25,000
Loan from student through online transfer	30,000
	75,000

Example-3

A newly launched company has issued shares. The shareholders have made the full payment in cash. Amount received from shareholders is chargeable under the head "Income from Other Source".

(4) Sub-section (3) shall not apply to an advance for the sale of goods or supply of services.

Contracts are of three types:

1. Contract for sale of goods (for example contract for sale of AC, furniture etc.)
2. Contract for rendering of services (for example contract for law services or audit services)
3. Contract for sale of goods **and** rendering of services (for example a contract in which you being a seller will create map and will also provide construction material)

Analysis

First 2 contracts

In first 2 contracts if the seller is receiving advance the payment can be made by buyer through any mode of payment (means payment can also be made in cash)

Third contract

If the contract relates to sale of goods **and** rendering of services the buyer should make payment through modes mentioned in S. 39(3) otherwise it will be treated as "Income from other source" in the hands of seller.

(4A) Where -

(a) any interest on investment in National Savings Deposit Certificates (including Defence Savings Certificate) is paid to a person in arrears; and

(b) as a result the person is charged at higher rate of tax than was applicable if the profit was paid to the person in the tax year to which it relates,

the person may, by notice in writing to the Commissioner, elect for the profit to be taxed at the rate that was applicable if the interest was paid to the person in the tax year to which it relates.

Currently it is not operational because it is already covered under section 151(a).

(4B) An election as above shall be made by the due date for furnishing the person's return for the tax year in which it was received. The Commissioner may allow an extension.

(5) This section shall not apply to any income that is chargeable under any other head of income or falls under final tax regime.

Deductions in computing income chargeable under the head "Income from Other Sources" [Sec. 40]

Admissible deductions

(1) In computing the income under the head "Income from Other Sources", a deduction shall be allowed for any expense paid by the person if the expenditure is paid in deriving income. However no deduction will be allowed for an expenditure of capital nature.
Expenditure is of a capital nature if it has a normal useful life of more than one year. [s. 40(6)]

(2) A person receiving any profit on debt shall be allowed a deduction for any Zakat paid by the person under the Zakat and Ushr Ordinance.

(3) A person receiving income from lease of building together with plant and machinery (clause (f) of sub-section (1) of section 39) shall be allowed –

(a) a deduction for the depreciation (as per S. 22) of any plant, machinery or building used; and

(b) An initial allowance (as per S. 23) for any plant or machinery used.

In-admissible deductions

(4) Any expense which is allowed as deduction under another head will again not be allowed under this head.

(5) The expenses which are not allowed as deduction under the head income from business (as per S. 21) will also not be allowed as deduction under the head Income from Other Source.

Example for understanding

Source of income	Revenue expenditure (Day to Day expenses) e.g Repair, Salary etc.	Capital expenditure e.g (Purchase of fixed asset)
Income from business	Allowed	Depreciation allowed
Income from other source	Allowed **[Sec.40(1)]**	Depreciation not allowed **[Sec.40(1)]**

Note: If you are earning income from other source u/s 39(1)(f) you can record depreciation as per tax rules. [Sec.40(3)]

Tax on profit on debt (interest income) [Sec. 7B]

(1) A tax shall be imposed, at 15%, on every individual and AOP who receives profit on debt from a prescribed person (e.g. from bank, Government or National saving scheme).

(2) The tax shall be computed by applying the rate of tax to the gross amount of profit on debt.

(3) This section shall not apply to a profit on debt that:

a) is exempt from tax.

b) exceeds Rs. 5 million.

With-holding agent shall deduct tax on gross amount @ 15%. [Refer Q.2 in practice Questions Below]

If profit on debt exceeds Rs. 5 million (for individual or AOP) it would be taxable under normal tax regime under the head income from other source.

If interest is earned through **loan agreement** then is taxable under NTR in case of all persons (individual, AOP, Company) under the head income from other source.

Profit on debt on **behbood saving certificates**/pensioners benefit account is taxable under NTR with maximum tax rate @ 10%.

Note: For companies' profit on debt falls under NTR chargeable under income from other source.

ICAP PAST PAPER QUESTIONS

Question-1

Mr. Fawad got possession of a shop on 21.07.2004 by paying R.s 100,000 as pugree to the outgoing tenant. On 26.05.2005 he vacated the possession of the said shop and received R.s 650,000 as consideration for vacating the possession. What will be tax treatment of this amount in his income for TY 2005?

(4)

(Q.4(ii) September 1999)

Question-2

Specify under which head of income, following amounts of rent would be chargeable to tax:

(i) Rent in respect of lease of a building together with plant and machinery.

(ii) Amount included in the rent of a building for the provision of amenities, utilities or any other service connected with the renting of such building.

(2)

(Q.1 (c) September 2006)

Question-3

Mr. Anil is constructing his house and for the purpose of meeting construction expenses, he intends to take a personal loan of Rs.500,000 from Mr. Kamran who is in the business of money lending. He has been advised by one of his friends that such a loan may be included in his taxable income, under certain circumstances.

You are required to advise Mr. Anil about the circumstances under which the loan may be included in his taxable income.

(4)

(Q.2 (a) March 2008)

Question-4

Respond to the following situation, under the provisions of the Income Tax Ordinance, 2001:

During the tax year 2020, Sadiq received a flat as gift from his friend, Mumtaz Alvi. The flat was located in posh area of Lahore and its fair market value at the time of gift was Rs. 4.5 million. ***Discuss the tax treatment of the flat received by Sadiq.***

(02)

(Q.4 (a) March 2020)

ICAP PAST PAPER SOLUTIONS

Answer-1

Any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof shall be chargeable to tax under the head "Income from Other Sources" in the tax year in which it was received and the following nine tax years in equal proportion. [S.39(k)]

Therefore Rs. 55,000 [(650,000 – 100,000)/10] is chargeable to tax in TY 2005 under the head "Income from Other Sources".

Answer-2

i. Income from Other Sources

ii. Income from Other Sources

Answer-3

Any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number shall be treated as income chargeable to tax under the head "Income from Other Sources" for the tax year in which it was received. [S.39(3)]

Therefore it is advised Mr. Anil should obtain loan within the above mentioned bounds otherwise it will be treated as income in the hands of Mr. Anil chargeable under the head "Income from Other Sources".

Answer-4

According to Income Tax Ordinance 2001, any amount or fair market value of any property received without consideration or received as gift will be included in Income from Other Sources of the person who received the amount or property. However, if gift is received from relatives it will not be included in income from other source. [S.39(1) (la)]

As the gift is received by Sadiq from his friend, exemption will not be available. Therefore, Rs. 4.5 million, being the fair market value of property, will be included in Income from Other Sources of Sadiq.

PRACTICE QUESTIONS

Question-1

Mr Fawad has provided you with following information for year ended TY 2016:

1. He received Rs 100,000 as advance (in cash) for the designing and construction of home of Mr Anjum. The advance is for sale of goods (i.e. material) and rendering of services (preparation of map).
2. He has hired a property on rent for which he pays Rs 15,000 per month starting from 1 August 2015. The property is sub-let to Mr Furqan on 28 February 2016 for Rs. 20,000 per month.
3. He received a factory in inheritance from his father in TY 2006. In TY 2016 he leased the factory with the plant and machinery at annual rental Rs 1,200,000. The tax depreciation on machinery is Rs 20,000.
4. He owned some property in Chitral .He was informed by Natural Resource department that there are tons of copper and gold underneath his property. He made an agreement with them that he will charge Rs 100,000 + 10% shares of gold and copper extracted in TY 2016 as consideration for providing the property. The fair value of resources extracted is Rs. 2,500,000.
5. Mr. Furqan paid Mr Fawad a cash Rs. 50,000 as advance for purchase of some goods.
6. He has an office in Islamabad. He paid Rs 150,000 for getting its possession on 1 June 2012. Ms. Shaumaila approached him and paid him Rs 250,000 for vacating that property on 1 January 2016.
7. He received Loan from Cadbury bank of Rs 400,000 in cash at start of year.
8. On his birthday, his friend sent him cash gift of Rs. 25,000. His friend does not have NTN
9. He was in need of an urgent money at the end of year. For this purpose he obtained a loan of Rs. 100,000 through online transfer from his friend. His friend does not hold NTN.

Required:

Calculate Mr Fawad taxable income and give reasons for inclusion and exclusion of items for TY 2016.

Question-2

For the purpose of this question, assume that the date today is 31 August 2020.

Shahid is engaged in the business of manufacturing and supplying of auto parts. Following is the extract of his profit or loss statement for the tax year 2020:

	Rs. in '000'
Sales	29,058
Cost of goods sold	(18,724)
Gross profit	10,334
Operating expenses	(3,137)
Financial charges	(2,030)
Other income	760
Profit before tax	5,927

Financial charges include profit on debt of Rs. 450,000 earned on fixed deposit account maintained with a bank. The bank withheld income tax and Zakat amounting to Rs. 45,000 and Rs. 93,750 respectively.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and net tax payable by or refundable to Shahid for the tax year 2020.

PRACTICE QUESTIONS SOLUTION

Answer-1

Mr. Fawad
Taxable Income and Tax Thereon
Tax Year 2016

				Rs.
Income from other source				
Cash advance received from Mr. Anjum	[S.39(3)]			100,000
Rent Received	[S.39(1)(e)]	(4 x 20,000)	80,000	
Less: Rent paid	[S.40(1)]	(4 x 15,000)	(60,000)	
				20,000
Rent from lease of building together with plant and machinery [S.39(1)(f)]			1,200,000	
Less: Depreciation on machinery	[S.40(3)]		(20,000)	
				1,180,000
Exploitation of property	[S.39(1)(i)]	(100,000 + 2,500,000 x 10%)		350,000
Amount received for vacating possession of building		(250,000 – 150,000)/10	[S.39(1)(k)]	10,000
Gift from friend	[S.39(3)]			25,000
Loan from friend	[S.39(3)]			100,000
Taxable Income				**1,785,000**

Notes:
1. As the cash advance of Rs. 100,000 relates to both sale of goods and rendering of services, it is chargeable to tax as per S .39(3).
2. Rent received from sub lease of land or building is chargeable to tax under the head Income from Other Source and any expenditure incurred for it is allowed as deduction.
3. Income from the lease of any building together with machinery is chargeable under the head IFOS and a deduction is allowed under this head for depreciation of plant and machinery.
4. The amount received in cash and fair value of benefit received from allowing use of property is chargeable under the head Income from other source.
5. Any cash advance received for sale of goods is not chargeable to tax as per S. 39(4).
6. Any amount received by the person as a consideration for vacating the possession of building reduced by any amount paid by person to acquire possession of that building is chargeable under the head IFOS in the tax year in which it was received and following 9 tax years in equal proportion.
7. Any amount received in cash as loan is chargeable to tax but loan received from financial institution is an exception to this rule, therefore this amount in not chargeable to tax.
8. Irrespective of the fact that friend holds NTN or not cash gift is taxable as IFOS.
9. A person not holing NTN can advance a loan to another person through cross cheque only, otherwise it will be considered as income from other source in the hands of recipient. As the loan is provided through online transfer, therefore it will be considered as income from other source.

Answer-2

Shahid
Income and tax thereon

	Rs. (000)
Income from business (W-1)	5,477
Total Income	5,477
Less: Zakat	(94)
Taxable income	5,383
Tax payable 620,000 + 1,383,000 x 30%	13,042
Add: Tax on profit on debt (450 x 15%)	68
	13,110
Less: Tax deducted on profit on debt	(45)
Tax payable to Government	13,065

(W-1) Income from business

	Rs. (000)
Profit before tax	5,927
Less: Profit on debt (interest income)	(450)
	5,477

ASSOCIATION OF PERSONS

12

1. Principles of taxation of associations of persons [Sec. 92(1)]
2. An individual as a member of an association of persons.[Sec. 88]
3. Limitations on set off and carry forward of losses [Sec. 59A]
4. Miscellaneous provisions relating to tax credits [Sec. 65]
5. Transfers of assets [Section 90]
6. Change in constitution of an AOP [Sec. 98A]
7. Discontinuance of business or dissolution of an AOP [Sec. 98B]
8. Succession to business otherwise than on death [Section 98C]

CHAPTER 12
ASSOCIATION OF PERSONS

Principles of taxation of associations of persons [Sec. 92(1)]
An association of persons shall be liable to pay tax separately from the members and where the association of persons has paid tax, the amount received by a member out of the income of the association shall be exempt from tax.
If at least 1 of the member of an AOP is a company, the share of company shall be excluded from total income of the AOP and the company shall pay tax separately at rate applicable to the companies.

1. Joint venture
   A joint venture is also considered as AOP and its taxation is similar as of AOP.
2. Change in constitution
   Where there is change in constitution of AOP for example admission, retirement or change in profit sharing ratio takes place, the profit will be divided to the partners on time basis.
3. Responsibility for filing return
   It is with members on the date firm is required to file return.
4. Responsibility for depositing tax in case of dissolution or discontinuance of business
   It can be recovered from any person who was member at time of dissolution etc. It can also be recovered from legal heirs in case of a deceased individual.
5. Treatment of loss in case of change of ownership
   If more than 50% of ownership of AOP changes in a tax year, the loss before change will be allowed as deduction if the AOP continues the same business.

An individual as a member of an association of persons.-[Sec. 88]
If, for a tax year, an individual has taxable income and derives share of profit from AOP, the amount of tax on the taxable income of the individual shall be computed as follows:

$$(A/B) \times C$$

where –
A is the amount of tax payable by the individual if amount derived from AOP as a share is chargeable to tax;
B is the taxable income of the individual if the amount derived from AOP as a share is chargeable to tax; and
C is the individual's actual taxable income for the year.

As per FBR clarification the income to be added for rate purpose is before tax.

Point to be considered while calculating divisible income
Where an AOP has normal taxable income as well as income under FTR and separate block, its income from FTR and separate block shall not be added in the taxable income of members for rate purposes. Example of FTR Income earned by AOP is Dividend Income.

Limitations on set off and carry forward of losses [Sec. 59A]
(3) In case of association of persons, any loss of AOP shall be set off or carried forward against the income of the association.
(4) (a) A member of an AOP cannot setoff (or carry forward) the loss of AOP against his income.

Miscellaneous provisions relating to tax credits and members of AOP [Sec. 65]
(1) Where the person entitled to a tax credit is a member of an association of persons the following shall apply:
   (a) component A of the formula in section 61-64 shall be the tax payable by the individual if exempt amount were chargeable; and
   (b) component B of the formula in section 61-64 shall be the taxable income of the individual for the year if exempt amount were chargeable.
(4), (5) Where the person is a member of an AOP, any excess credit for a tax year may be claimed by AOP. For availing this benefit the member and the association should agree in writing and agreement must be furnished with the association's return of income.
Tax credit allowed from section 61-63 shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

Transfers of assets [Section 90]

Tax on property is generally payable by person who owns property. However, sometimes property is transferred for tax avoidance. To avoid such practice, relevant provisions are as follows:

(1) Where property is transferred to another person but asset remains the property of transferor, rental income (from property) will be the income of **transferor**.

(2) *Revocable transfer*
If transfer is revocable (cancellable), property income will be the income of the **transferor**. However, if:
- it is irrevoeable (non-cancellable) during lifetime of the transferee and
- transferor derives no (direct or indirect) benefit from income

then it will be income of **transferee**.

(3) *Transfer to spouse or minor child*
If property is transferred by a person to his spouse or minor child (other than a married daughter) or to another person for benefit of spouse or minor child, property income will be income of **transferor**. However, in case transfer is:
(a) for adequate consideration or
(b) in connection with an agreement to live apart

then it will be income of **transferee**.

(4) *Transfer using funds of transferee*
If property is acquired by transferee with funds (money) of transferor, it will not be considered as transfer made for adequate consideration. The transfer will also not be accepted if there is no evidence of registration (or mutation).

Change in constitution of an AOP [Sec. 98A]

Where a change occurs in the constitution of a firm (for example admission or retirement) during a tax year, the firm's income is apportioned between the partners on time basis.
The responsibility for filing return in this case is with persons who are partners of firm on date it is required to file its tax return.

Discontinuance of business or dissolution of an AOP [Sec. 98B]

Where an AOP dissolves or discontinues its business, it's tax is recoverable from any person who was a partner in the firm at time of dissolution/discontinuance. Tax can also be recovered from legal heirs of the deceased partner.

Succession to business otherwise than on death [Section 98C]

(1) If a person carrying on any business (or profession) is succeeded in any tax year by any other person (now referred as "predecessor" and "successor" respectively), otherwise than on the death of predecessor, and successor continues the same business,-
(a) the predecessor shall pay tax on the income of the tax year in which succession took place. He will pay tax for the tax year upto the date of succession and for preceding years as well; and
(b) the successor shall pay tax for that tax year after date of succession.

(2) Where predecessor cannot be found, the tax will be paid by successor. Successor will pay tax for the tax year upto the date of succession and for preceding years as well.

(3) Where tax cannot be recovered from predecessor, it shall be recoverable from successor. Successor will be entitled to recover it from the predecessor.

Question-1 [Sec. 65]

Mr. Zameer has provided you with the following details for TY 2018:

Income From Business	600,000
Share from AOP	200,000
Charitable donation	50,000

Calculate tax liability of Mr. Zameer?

Answer-1

Income From Business			600,000
Taxable income			600,000
Add: Share from AOP			200,000
Taxable income for rate purposes			800,000
Tax on above	(10,000 + 200,000 x 10%)	30,000	
Actual tax	(30,000 / 800,000) x 600,000		22,500
Less: Tax credit under section 61	(30,000/ 800,000) x 50,000		(1,875)
C is lower of:			
- 50,000			
- 30% x 600,000 = 180,000			
Tax Payable to Government			20,625

ICAP PAST PAPER THEORY QUESTIONS

Question-1
Describe the principles of taxation for an 'Association of Person'? (6)

(Q.6 September 2004)

Question-2
Explain the provisions of the Income Tax Ordinance 2001 regarding the principles of taxation of Association of Persons.

(Q.9 September 2005)

Question-3
Briefly discuss the provisions of Income Tax Ordinance, 2001 in respect of the following situation. Farhan received Rs. 960,000 as his share of profit from AOP, during the tax year 2014. He also earns income from other sources. (05)

(Q.2 (a) September 2014)

Question-4

(a) Under the provisions of the Income Tax Ordinance, 2001 state the rules relating to residential status of an Association of Person (AOP). Also explain the taxability of income of AOP, in the hands of the firm and its members. (05)

(b) State the rules relating to set-off and carry-forward of losses of AOP and its members. (02)

(Q.5 March 2015)

ICAP PAST PAPER THEORY SOLUTIONS

Answer-1

An association of persons shall be liable to tax separately from the members of the association and where the association of persons has paid tax the amount received by a member of the association in the capacity as member out of the income of the association shall be exempt from tax. [S.92(1)]

In case of association of persons, any loss of such association shall be set off or carried forward and set off only against the income of the association.

Answer-2

Same as Answer-1

Answer-3

If, for a tax year, an individual has taxable income and derives share of profit from AOP, the amount of tax on the taxable income of the individual shall be computed in accordance with the following formula, namely:– [S.88]

$$(A/B) \times C$$

where –

A is the amount of tax that would be assessed to the individual if the amount derived from AOP as a share is chargeable to tax;

B is the taxable income of the individual if the amount derived from AOP as a share is chargeable to tax; and

C is the individual's actual taxable income for the year.

Therefore, Farhan will use the above formula for calculating tax. The share from AOP will be exempt in the hands of Farhan if AOP has paid the tax, however it will only be added for rate purpose.

Answer-4

a)

Residential status of AOP**[Sec. 84]**

An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year.

Taxability of income of AOP in hands of firm

An association of persons shall be liable to pay tax separately from the members.

Taxability of income of AOP in hands of member [Sec 88]

Where the association of persons has paid tax, the amount received by a member out of the income of the association shall be exempt from tax.

If, for a tax year, an individual has taxable income and derives share of profit from AOP, the amount of tax on the taxable income of the individual shall be computed as follows:

$$(A/B) \times C$$

Where-

A is the amount of tax payable by the individual if amount derived from AOP as a share is chargeable to tax;

B is the taxable income of the individual if the amount derived from AOP as a share is chargeable to tax; and

C is the individual's actual taxable income for the year.

If at least 1 of the member of an AOP is a company, the share of company shall be excluded from total income of the AOP and the company shall pay tax separately at rate applicable to the companies.

b)

Rule for AOP [S.59A(3)]

In case of association of persons, any loss of AOP shall be set off or carried forward against the income of the association.

Rule for members[S.59A(4)(a)]

A member of an AOP can neither setoff (or carry forward) the loss of AOP against his income nor it is considered for rate purpose.

ICAP PAST PAPER NUMERICAL QUESTIONS

Question-1

T & H Enterprises is a registered firm comprising of two equal partners named Tariq and Hamid. During the year the partners besides their shares in the firm enjoyed income and sustained losses from the sources given below:

		Rs.
Tariq		
(a)	Income accrued abroad but not remitted to Pakistan	500,000
(b)	Share of a loss from an association of persons	5,000
(c)	Zakat paid	26,500
Hamid		
(a)	Speculation loss	25,000
(b)	Profit on sale of personal car	13,000
(c)	Income tax refund of previous year	5,000
(d)	Zakat paid	14,000

The profit and loss account of the registered firm for the year shows the following position:

		Rs.		Rs.
Salaries		300,000	Gross profit b/d	980,000
Office maintenance		5,000	Dividend from public company	250,000
Repairs		38,000		
Provision for bad debts		14,000		
Tax paid for last year		5,000		
Legal expenses		15,000		
Commission to Tariq		16,000		
Premium of life policies of partners (equal amount for each partner)		5,000		
Depreciation		34,000		
Net profit:				
Tariq	399,000			
Hamid	399,000	798,000		
		1,230,000		1,230,000

Notes:

(i) Tariq & Hamid are paid Rs.45,000 and Rs.55,000 respectively as salary. This is included in total salary expense

(ii) Repairs include Rs. 18,000 being cost of a plant and machinery.

(iii) Legal expenses include Rs.6,000 which are not tax deductible

(iv) Tax Depreciation excluding plant and machinery is Rs. 15,012.

Compute:

a) The taxable income of the firm and taxes payable by it.

b) The taxable income of each partner and tax thereon.

(20)

(Q.8 September 2001)

Question-2

Sohail, Khaled and Qazi are members of an association of persons (AOP) and share profit and loss in the ratio of 2:2:1. The principal activity of the AOP is trading of rice and wheat.

Following are the details of the annual income / (loss) of the AOP and its member:

(i) The AOP suffered loss before tax amounting to Rs. 1,500,000. The loss has been arrived at after adjusting rental income earned by the AOP, the details of which are as follows:

		Rs.
Rental income		2,000,000
Related expenses:		
Property tax	40,000	
Depreciation	457,500	497,500
Net rental income		1,502,500

(ii) The expenses debited to profit and loss account include the following amounts paid to the members of the AOP:

	Sohail	Khaled	Qazi
Salary (Rs.)	900,000	600,000	-
Interest on capital (Rs.)	300,000	300,000	500,000

(iii) Sohail earned Rs.800,000 from another business, of which he is the sole proprietor.

Required:

Compute the taxable income and tax liability of the AOP and of Sohail. **(12)**

(Q. 1 March 2010)

Question -3

Baqir, Asad and Rahi are members of an association of persons (BAR) and share profits and losses in the ratio of 5:3:2 respectively. BAR is engaged in the business of trading consumer electronics and has two independent branches one each in Tehran and Dubai. Following information has been extracted from BAR's profit and loss account for the year ended 31 December 2015:

	Rupees
Sales	30,000,000
Cost of sales	(20,500,000)
Gross profit	9,500,000
Administrative and selling expenses	(4,732,000)
Financial charges	(980,000)
Other income	1,700,000
Profit before taxation	5,488,000

Additional information:

Cost of sales includes:

(i) Closing stock which has been valued at net realizable value of Rs. 1,820,000. The cost of closing stock under absorption costing was Rs. 1,950,000.

(ii) Provision of Rs. 75,000 against slow moving stores and spares.

(iii) Freight charges of Rs. 260,000. These were paid in cash to Momin Goods Transport for transporting goods to customers in Multan.

Administrative and selling expenses include:

(i) Commission of Rs. 290,000 paid to Baqir, annual performance award of Rs. 310,000 paid to Rahi and Rs.455,000 paid to AB Bank Limited in final settlement of a loan obtained by Asad for the construction of his house in Muree.

(ii) Provision for bad debts of Rs. 735,000. The opening and closing balances of provision for bad debts amounted to Rs. 1,100,000 and Rs. 1,435,000 respectively. Bad debts written off include a loan of Rs. 285,000 provided to a supplier.

(iii) Sales promotion expenses of Rs. 275,000. These expenses were paid by Rahi through his personal credit card.

(iv) Rs. 86,000 paid to an institution operated by Federal Government for the training of industrial workers in Punjab.

Further information:

For the year ended 31 December 2015 Dubai branch made a profit of Rs. 1,500,000 and Tehran branch made a loss of Rs. 1,800,000. These figures are not included in the above profit and loss account.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by BAR and the amount to be carried forward, if any, for tax year 2016. Assume tax and accounting depreciation is same.

Note:

(12)

- ***Your computation should commence with the profit before tax figure of Rs. 5,488,000.***
- ***Show all relevant exemptions, exclusions and disallowances.***

(Q.8 March 2016)

Question-4

On 1 July 20X6 Dawood and Dewan jointly purchased a bungalow for Rs. 35 million. They paid the amount in the ratio of 65:35 respectively. To arrange funds for the deal, they borrowed Rs. 3,000,000 in cash from Shameem who is in the business of lending money. The rate of interest is agreed @ 20% per annum.

On 1 July 20X6, the house was let out to a company at annual rent of Rs. 4,500,000 inclusive of an amount of Rs. 75,000 per month for utilities, cleaning and security. For providing these services Dawood and Dewan paid Rs. 35,000 per month. During the tax year 20X7 they also paid Rs. 10,000 as collection charges and Rs. 230,000 for administering the property.

Required:

Compute taxable income of Dawood and Dewan under appropriate heads of income for the tax year 20X7. (08)

(Q.3 (a) March 2017)

Question-5

(a) Mustafa, Ali and Zain are partners of a resident firm in Pakistan, under the name and style MAZ Enterprises (MAZE) which is engaged in selling auto spare parts. All partners have equal share of profits and losses in the firm.

Following information has been extracted from accounting records of MAZE for the tax year 2021:

	Rs. in '000
Sales	140,400
Cost of goods sold	(91,260)
Gross profit	49,140
Administrative and selling expenses	(21,430)
Financial charges	(15,740)
	(37,170)
Other income	1,088
Profit before tax	13,058

Additional information:

(i) The above accounts have been prepared on cash basis and stock-in-trade has been valued on the prime-cost method. However, the partners want to change the method of accounting from cash basis to accrual basis. In this respect, following information has been gathered:

	Opening balances	Closing balances
	------Rs. in '000------	
Stock-in-trade using prime-cost method	5,200	7,500
Stock-in-trade using absorption-cost method	5,900	8,800

(ii) Cost of goods sold includes cost of used machinery imported from China on 31 July 2020 amounting to Rs. 2,110,000. The cost includes payment of custom duty of Rs. 90,000 and income tax of Rs. 110,000 to the Collector of Customs.

(iii) Administrative and selling expenses include:

- payment of Rs. 380,000 to a local hotel for holding annual eid-milan party for the employees, key customers and their families.
- payment of a fixed monthly remuneration of Rs. 150,000 to each partner.
- payment of Rs. 180,000 for purchase of accounting software on 1 January 2021. The software is expected to be used for ten years.

Required:

Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and tax payable by MAZE using accrual basis of accounting. **(10)**

Note: Show all the relevant exemptions, exclusions and disallowances.

(b) Besides the share of income from MAZE, Zain has received the following amounts from his employment with Hasan Pakistan Limited (HPL) during the tax year 2021:

(i) A monthly salary of Rs. 200,000.

(ii) Reimbursement of Rs. 350,000 for actual cost of medical services for him and his dependents, from an insurance company, under the health insurance policy.

On 31 March 2021, he purchased a car from HPL for Rs. 110,800. The market value of this car on 31 March 2021 was Rs. 250,000.

Required:

Compute the total income, taxable income and tax liability of Zain for the tax year 2021. **(07)**

(Q.1 March 2019)

Question-6

Farhan, Kamran and Rehan are members of an association of persons (AOP) and share its profit and loss in the ratio of 2:2:1 respectively.

Following information is available with regard to AOP and its members for the tax year 2020:

(i) During the year, AOP earned a profit before tax of Rs. 2,000,000 after making following payment to its members:

	Farhan	Kamran	Rehan
	---------------	Rupees	---------------
Salary	1,000,000	800,000	600,000
Interest on capital	500,000	400,000	300,000

(ii) Kamran is running a business as a sole proprietor from which he earned Rs. 800,000. Kamran is also a member of another AOP where his share of profit or loss is 60%. During the year, the other AOP incurred a loss after tax of Rs. 350,000 and paid Rs. 150,000 on account of income tax.

(iii) Rehan received net dividend of Rs. 102,000 from a listed company after deduction of withholding tax @ 15%.

(iv) Farhan has no other source of income.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute taxable income and tax liability of AOP and each of its members for the tax year 2020.

(11)

(Q.2 March 2020)

Question-7

Libas & Co. is an association of persons (AOP) with three members, Saba, Junaid and Akram, sharing profit and loss in the ratio of 1:1:2 respectively.

During the year, AOP earned profit before tax of Rs. 8,500,000 from its principal business i.e. trading of garments. In addition, AOP is also involved in purchase and sale of following securities listed on the Pakistan Stock Exchange:

Name of investee company	Details of purchase			Details of sale		
	Date	No. of shares	Price per share (Rs.)	Date	No. of shares	Price per shares (Rs.)
XOK Limited	1 Oct 2018	200,000	200	29 June 2022 [Note A]	200,000	225
PBB Limited	18 Aug 2019	55,000	145	20 Dec 2021	100,000	180
	10 Jan 2020	100,000	150			
OOI Limited	15 Feb 2022 [Note B]	150,000	86	15 March 2022	150,000	78

Note A: Sale proceed from disposal of these shares was credited to the AOP's bank account on 2 July 2022.

Note B: Due to shortage of funds for making this purchase, AOP borrowed Rs. 5,000,000 in cash from Imran, who is in the business of lending money.

Other information related to Saba:

(i) During the year, she earned Rs. 1,500,000 by working as a freelance photographer.

(ii) Saba received Rs. 100,000 as profit on debt on loan provided by her to Zafar.

Required:

Under the provisions of the Income Tax Ordinance, 2001, compute taxable income and tax liability of AOP and Saba for the tax year 2022.

(13)

(Q.2 Sep. 2020)

ICAP PAST PAPER NUMERICAL SOULTIONS

Answer -1

a)

Taxation of AOP
Income from business

Income from business (W-1)			725,475
Taxable income			725,475
Tax liability of AOP	(10,000 + 125,475 x 10%)		22,548
Add: Tax liability on dividend	(250,000 x 15%)		37,500
Total tax liability			60,048
Less: Tax deducted on dividend			(37,500)
			22,548

Tariq
Income and tax thereon
For the TY 20XX

Total Income (only foreign source)			500,000
Less: Zakat	[S.60]		(26,500)
Taxable Income			473,500
Add: Share of profit from AOP for rate purpose	[S.88]		365,738
Taxable income for rate purpose			839,238
Tax liability	(10,000 + 239,238 x 10%)	33,924	
Tax liability on 473,500	(33,924/839,238 x 473,500)		19,140

- Share of loss form another AOP will have no impact because AOP carries forward its loss itself. [S.59A(3)]

Hamid
Income and tax thereon
For the TY 20XX

Taxable Income			0
Add: Share of profit from AOP for rate Purpose	[S.88]		359,737
Taxable income for rate purpose			359,737
Tax liability		(No need)	
Tax liability on actual taxable income			0

- The loss from speculation business will be carried forward.[S.58]
- Sale of personal car has no impact because as per the definition of capital asset personal moveable property is not a capital asset. [S.37(5)(d)]

(W-1) Income from business- AOP

Net profit			798,000
Add: Inadmissible expenses			
Salary to Tariq	[S.21(j)]	45,000	
Salary to Hamid	[S.21(j)]	55,000	
Capital expenditure classified as expense	[S.21(n)]	18,000	
Provision for bad debt	[S.29(1)]	14,000	
Tax paid	[S.21(a)]	5,000	
Legal expense		6,000	
Commission to Tariq	[S.21(j)]	16,000	
Premium	[S.21(j)]	5,000	
Accounting depreciation		34,000	
			198,000
Less: Dividend Income to be taxed separately		250,000	
Initial allowance on plant and machinery	(18,000 x 25%)	4,500	
Depreciation on plant and machinery	(18,000 – 4,500) x 15% x 50%	1,013	
Tax depreciation		15,012	
			(270,525)
Income from business			**725,475**

(W-2)

Taxation of Members

Divisible Income

Taxable Income of AOP 725,475

Share of profit

	Tariq	Hamid	Total
Salary	45,000	55,000	100,000
Commission	16,000	-	16,000
Premium	2,500	2,500	5,000
Profit share	302,238	302,237	604,475
Total	365,738	359,737	725,475

Answer-2

Sohail, Khaled ,Qazi
Income and tax thereon
TY 20XX

Income from property	(W-2)	1,560,000
Income/ (loss) from business	(W-1)	(402,500)
Taxable income – taxable under NTR		1,157,500
Tax liability on income under NTR	(10,000 + 557,500 x 10%)	65,750

Taxation of Members
Sohail
Income and tax thereon
For the TY 20XX

Income from business	800,000
Taxable income	800,000
Add: Share of profit from AOP for rate purpose [S.88]	623,000
Taxable income for rate purpose	[illegible]

Tax liability	(70,000 + 223,000 x 15%)	103,450	
Tax liability on 800,000	$\left(\frac{103,450}{1,423,000} \times 800,000\right)$		58,159

Workings

(W-1) Income from business - AOP

Business loss for the year		(1,500,000)
Less: Net Rental income		(1,502,500)
Add: Inadmissible expenses		
Salary to Sohail	[S.21(j)]	900,000
Salary to Khaled	[S.21(j)]	600,000
Interest to Sohail	[S.21(j)]	300,000
Interest to Khaled	[S.21(j)]	300,000
Interest to Qazi	[S.21(j)]	500,000
Income/ (loss) from business		(402,500)

(W-2) Income from property –AOP

Gross Rent		2,000,000
Less: Admissible deductions		
Repair allowance	(2,000,000 x 1/5)	(400,000)
Property tax		(40,000)
Rent chargeable under NTR		1,560,000

(W-3) Divisible Income

Income of AOP	1,157,500

(W-4) Share of Profit

	Sohail	Khaled	Qazi	Total
Salary	900,000	600,000	-	1,500,000
Interest	300,000	300,000	500,000	1,100,000
Profit share (2:2:1)	(577,000)	(577,000)	(288,500)	(1,442,500)
Divisible income	623,000	323,000	211,500	1,157,500

Answer-3

Baqir, Asad and Rahi
Income and tax thereon
TY 2016

Pakistan Source - Income from business	Rs.
Income from business – Pakistan source (W-1)	7,513,000
Income from business – Foreign source (W-2)	-
Taxable income	**7,513,000**
Tax liability (1,220,000 + 1,513,000 x 35%)	1,749,550
Loss in respect of foreign source business income to be carried forward (W-2)	300,000

(W-1) Income from business – Pakistan source

Business profit for the year		5,488,000
Add:		
Closing stock adjustment (no adjustment required as stock is already appearing at lower of cost and NRV)	[S.35(4)]	-
Provision for slow moving stores		75,000
Freight charges (can be paid in cash so allowed)	[S.21(l)]	-
Commission – Baqir	[S.21(j)]	290,000
Performance award – Rahi	[S.21(j)]	310,000

	Personal loan paid of – Asad	[S.21(j)]	455,000
	Provision for doubtful debt	[S.29(1)]	735,000
	Sales promotion expenses not paid through business bank account [S.21(l)]		275,000
	Training expense of workers (allowed because of govt. institute) [S.27(b)]		-
Less:	Bad debt ((W) 400,000 - 285,000) [N-1]	[S.29(1)]	(115,000)
	Income from business – Pakistan source		7,513,000

(W-2) Income from business – foreign source

Foreign Source - Income from business (Dubai)	1,500,000
Less: Foreign Source - Income from business (Tehran) [S.104(2)]	(1,800,000)
Income from business – foreign source	-

Note:1 As loan to supplier is not previously included in income, therefore it is not allowed as deduction [S.29(1)(a)(i)].

(W)

Provision for doubtful debt

Bad debt (bal.)	400,000	b/d	1,100,000
		Provision for the year	735,000
c/d	1,435,000		

Answer-4

Income of Dawood

			Rs.
Income from Other Source			
Cash Loan	[S.39(3)]		3,000,000
From utilities, cleaning & security[S.39(1)(fa)]		(480,000 (W-2) x 65%)	312,000
			3,312,000
Income from property		(2,136,000 (W-1) x 65%)	1,388,400
Taxable income – taxable under NTR			**4,700,400**

Income of Dewan

Income from Other Source		
From utilities, cleaning & security [S.39(1)(fa)]	(480,000 (W-2) x 35%)	168,000
Property income	(2,736,000 (W-1) x 35%)	957,600
Taxable income – taxable under NTR		**1,125,600**

(W-1) Income from property of Dawood & Dewan

Annual receipt		4,500,000
Less: Income chargeable under the head Income from other source (75,000 x 12)		(900,000)
Rent chargeable to tax		3,600,000
Less: Repair allowance	(1/5 x 3,600,000)	(720,000)
Less: Interest on loan	(3,000,000 x 20%)	(600,000)
Less: Administration and collection charges of property:		(144,000)
Lower of:		
- 4% x 3,600,000 = 144,000		
- 240,000 (230,000 + 10,000)		
Income from property		2,136,000

(W-2) Income from other source of Dawood & Dewan

Rent charged for utilities, cleaning and security	(75,000 x 12)	900,000
Less: Utilities, cleaning and security expense	(35,000 x 12)	(420,000)
		480,000

Answer-5

a)

MAZE
Income & Tax Thereon
For TY 2021

		Rs.'000'
Income from Business	(W-1)	21,426
Total/Taxable Income		21,426
Tax liability *	(1,220,000 + 15,426,000 x 35%)	6,619
Less: Advance tax paid		(110)
Tax Payable to Government		**6,509**

*The minimum tax is less than the normal tax liability of the AOP of Rs. 6,619 thousand. Minimum tax is calculated as follows:

Minimum tax	(140,400,000 x 1.25%)	Rs. 1,755 thousand

Hence, minimum tax is ignored in calculation

(W-1)Income from Business

			Rs.'000'
Profit before Tax			13,058
Add:			
Increase in profit due to increase in closing stock	(8,800 -7,500)	1,300	
Cost of machinery wrongly expensed out		2,110	
Eid-milan party expense (allowed being wholly incurred for business)		-	
Remuneration of partner	(150 x 3 x 12)	5,400	
Software Cost wrongly expensed out		180	8,990
Less:			
Initial allowance and tax Depreciation of machine (W-2)	(500 + 113)	(613)	
Amortization of Software	(W-3)	(9)	(622)
Income from Business			**21,426**

(W-2) Depreciation of machinery

Cost of machinery (It will not include income tax)	(2,110 - 110)	2,000
Less: Initial allowance	(2,000 x 25%)	(500)
		1,500
Less: Tax Depreciation	(1,500 x 15% x 50%)	(113)
Tax WDV		**1,387**

(W-3) Amortization of Software

		Rs.'000'
Amortization deduction	$(\frac{180}{10} x \frac{181}{365})$	9
No. of days software is used in tax year	(31+28+31+30+31+30)	181

b)

Zain
Taxable Income & Tax Thereon
For TY 2021

			Rs. '000'
Income from salary			
Basic salary	(200,000 x 12)		2,400
Reimbursement of medical services (Exempt assuming as per terms) [Clause 139]	[S.13(11)]		-
Car transferred	(250 - 111)		139
Taxable Income			2,539
Add: Share of profit from AOP for rate purpose	(W-1)		7,142
Taxable Income for rate purpose			9,681
Tax liability	(1,345,000 + 1,681,000 x 25%)	1,765	
Tax liability on actual taxable income	$\frac{1,765}{9,681}$ x 2,539		463

(W-1) Share of Profit

		Mustafa	Ali	Zain	Total
Salary	(150 x 12)	1,800	1,800	1,800	5,400
Profit Share	(16,026 x 1/3)			5,342	16,026
				7,142	**21,426**

(W-2) Divisible Income

Income of AOP	21,426

Answer-6

AOP Farhan, Kamran & Rehan
Computation of taxable income & tax liability
For the tax year 2020

		Rs. in '000'
Profit before tax		2,000
Add: Inadmissible deductions		
Salary:	[S. 21(i)]	
Farhan		1,000
Kamran		800
Rehan		600
Interest on capital:	[S. 21(i)]	
Farhan		500
Kamran		400
Rehan		300
Taxable income		5,600
Tax liability	[620,000 + 30% of 1,600,000]	1,100

Farhan
Income and tax thereon
For the TY 2020

Taxable Income			0
Add: Share of profit from AOP for rate Purpose	[S.88]		2,300
Taxable income for rate purpose			2,300
Tax liability		(No need)	
Tax liability on actual taxable income			0

Kamran
Income and tax thereon
For the TY 2020

			Rs. in '000'
Income from business			800
Taxable income			800
Add: Share of income from our AOP (W-2)	[S.88]		2,000
Share of loss from another AOP	(Not allowed to be set off)		-
Taxable income for rate purpose			2,800
Tax liability	[250,000 + 20% × 400,000]	330	
Actual tax liability:	$(\frac{330}{2,800} \times 800)$		94

Rehan
Income and tax thereon
For the TY 2020

Taxable Income			0
Add: Share of profit from AOP for rate Purpose	[S.88]		1,300
Taxable income for rate purpose			1,300
Tax liability		(No need)	
Tax liability on actual taxable income – NTR			0
Tax of FTR	(102/85 x 15)		18
Total Tax liability			18
Less: Tax already deducted on dividend			(18)
Tax Payable			-

Workings

(W-1) **Divisible Income**

	Rs. in '000'
Taxable income of AOP	5,600

(W-2) **Share of Profit**

	Farhan	Kamran	Rehan	Total
Salary	1,000	800	600	2,400
Interest capital	500	400	300	1,200
Profit share (2:2:1)	800	800	400	2,000
Divisible income	2,300	2,000	1,300	5,600

Answer-7

Libas & Co.
Income and tax thereon
For the tax year 2022

		Rupees
Income from business		8,500,000
Income from capital gain – Disposal of securities (Separate block)	(W-1)	7,075,000
Income from other sources	(W-2)	5,000,000
Total income		20,575,000
Less: Income from capital gain – disposal of securities (Separate block)		(7,075,000)
Taxable income of AOP under NTR		**13,500,000**
Tax liability [1,220,000 + (35% x 7,500,000)]		3,845,000
Tax on capital gain - separate block of income	[7,075,000×12.5%]	884,375
Total tax payable		**4,729,375**

Saba
Income and tax thereon
For the tax year 2022

		Rupees
Income from other source		
Profit on debt		100,000
Freelance income		1,500,000
Taxable income		1,600,000
Add: Share of profit from AOP for rate purpose	(W-3)	3,375,000
Taxable income for rate purpose		**4,975,000**
Tax liability [620,000 + (30% x 975,000)]	912,500	
Tax liability on 1,600,000 (912,500/4,975,000) x 1,600,000		293,467

(W-1) **Income from capital gain – separate block**

Gain from sale of shares of XOK Limited	[200,000 x (225-200)]	5,000,000
Gain from sale of shares PBB Limited	[55,000 x (180–145)]	1,925,000
Gain from sale of shares PBB Limited	[45,000 x (180–150)]	1,350,000
Loss from sale of shares of OOI Limited	[150,000 x (78–86)]	(1,200,000)
		7,075,000

(W-2) **Income from other sources**

Loan received in cash	5,000,000
	5,000,000

(W-3) **Divisible income**

Taxable income of AOP	13,500,000
Share of Saba (13,500,000 x ¼)	3,375,000

PRACTICE QUESTIONS

Question-1

Mr. A and B are sharing profits as 2:3 in a shop run by them. Taxable income of AOP for the year is Rs. 600,000. Mr. A and B have also provided the following details which do not relates to shop run by them.

	A	B
Income from business	500,000	-
Income from other sources	-	310,000
Zakat paid	20,000	22,000

Calculate the tax liability of firm and A and B?

Question-2

Mr. C and D are sharing profits as 1:2 in a shop a run by them. Taxable income of AOP for the year is Rs. 800,000. Mr. C and D have also provided the following details which do not relates to business run by them.

	C	D
Income from capital gain	900,000	-
Income from business	250,000	550,000
Zakat paid	5,000	17,000
Share of loss from another AOP	-	(10,000)

Calculate the tax liability of firm and C and D?

Question-3

Mr. E and F are sharing profits as 1:1 in a shop a run by them. Taxable income of AOP for the year is Rs. 800,000. Mr. E and F has also provided the following details which do not relates to shop run by them.

	E	F
Income from business	700,000	550,000
Income from salary	250,000	-
Zakat paid	3,000	18,000
Tax deducted by employer	2,000	-
Charitable donations made to non-profit organization	20,000	-
Investment in new shares of a listed company	-	35,000

Required: Calculate the tax liability of firm and E and F?

Question-4

Mr. G and H are sharing profits as 1:1 in a shop run by them. Taxable income of AOP for the year is Rs. 450,000. Mr. G and H have also provided the following details which do not relate to shop run by them.

	G	H
Income from business	420,000	550,000
Zakat deducted by bank	3,000	18,000
Charitable donations made to non-profit organization	30,000	-
Age at start of tax year	72 years	51years

Calculate the tax liability of firm and G and H?

Question-5

Mr. I and J are sharing profits as 1:2 in a shop run by them. Taxable income of AOP for the year is Rs. 800,000. Mr. I and J has also provided the following details which do not relates to business run by them.

	I	J
Income from capital gain	800,000	-
Income from business	250,000	-
Profit on sale of personal car	-	750,000
Share of profit from another AOP	25,000	-

Calculate the tax liability of firm and I and J?

Question-6

AB Associates is an AOP, having 2 partners A and B sharing profit and loss in the ratio of 60:40, respectively. Profit and loss account for the year is as under:

Sales				2,000,000
Less:	Cost of sales		450,000	
	Purchases		120,000	
	Salary to production manager		180,000	
	Depreciation		550,000	(1,300,000)
	Other expenses	(a)		
Gross profit				700,000
Less:	Salary to partner A		280,000	
	Commission to partner B		50,000	
	Depreciation on owned assets	(c)	20,000	
	Depreciation on finance lease	(b)	15,000	
	Finance charge on leased assets	(b)	2,500	
	Advertisement		23,500	
	Provision for doubtful debts		10,000	
	Other expenses	(d)	30,000	(431,000)
Add:	Dividend income			10,000
Net profit				279,000

Additional information

a) Other expenses include freight charges Rs. 18,000 single payment in cash. Aggregate freight charges for the year Rs.65,000.

b) Lease rentals for the year are Rs. 18,000

c) Tax depreciation is Rs. 90,000.

d) Other expenses represent the following:

• Loss on disposal of fixed assets	13,000
• Miscellaneous expenses	40,000
• Interest expense on loan utilized for purchase of fixed assets	5,000
• Residential telephone bills of partner A	5,000
• Bad debts recovered (disallowed by the tax department in the previous year when it was claimed as bad debt expense)	(33,000)
	30,000

e) Analysis of the liabilities reveals that the following amounts are outstanding for more than 3 years:

Liability against purchase	80,000
Bank loan	200,000
Interest on the above bank loan	40,000
Advance from customers	60,000

Further information

1. Mr. A has disclosed further following information:
   a) Business Income- PSI is Rs. 600,000
   b) He has also paid donation to approved charitable organisations amounting to Rs. 15,000.
   c) Zakat paid during the year is Rs. 38,000.
2. Mr. B has disclosed the following:
   a) Mr. B disposed off shares of a private company for Rs. 500,000 which were purchased by him 3 years ago in his personal capacity for Rs. 180,000.
   b) He also disposed off shares of listed company at a gain of Rs. 30,000 after holding them for a period of 3 months.
   c) He suffered loss of Rs. 150,000 from another AOP GH brothers.
   d) He earned Rs. 20,000 from sale of personal car.
   e) He earned dividend income of Rs. 10,000.

Required:

Calculate tax liability of members and AOP.

PRACTICE QUESTIONS SOLUTION

Answer-1

AOP
Income and tax thereon
TY 20XX

Taxable income of AOP			600,000
Tax liability of AOP	(200,000 x 5%)		10,000
(W-1) Divisible Income			
Taxable income of AOP			600,000
Share of A	(600,000 x 2/5)		240,000
Share of B	(600,000 x 3/5)		360,000
Tax liability of A			
Income from business			500,000
Less: Zakat			(20,000)
Taxable Income			480,000
Add: Share of profit from AOP for rate purpose	[S.88]		240,000
Taxable income for rate purpose			720,000
Tax liability	(10,000 + 120,000 x 10%)	22,000	
Tax liability on actual taxable income	$\left(\frac{22,000}{720,000} \times 480,000\right)$		14,667
Tax liability of B			
Income from other source			310,000
Less: Zakat			(22,000)
Taxable Income			288,000
Add: Share of profit from AOP for rate purpose	[S.88]		360,000
Taxable income for rate purpose			648,000
Tax liability	(10,000 + 48,000 x 10%)	14,800	
Tax liability on actual taxable income	$\left(\frac{14,800}{648,000} \times 288,000\right)$		6,578

Answer-2

AOP
Income and tax thereon
TY 20XX

Taxable income of AOP		800,000
Tax liability of AOP	(10,000 + 10% x 200,000)	30,000
(W-1) Divisible Income		
Taxable income of AOP		800,000
Share of C	(800,000 x 1/3)	266,667
Share of D	(800,000 x 2/3)	533,333
Tax liability of C		
Income from capital gain		900,000
Income from business		250,000

Total Income			1,150,000
Less: Zakat [S.60]			(5,000)
Taxable Income			1,145,000
Add: Share of profit from AOP for rate purpose	[S.88]		266,667
Taxable income for rate purpose			1,411,667
Tax liability	(70,000 + 211,667 x 15%)	101,750	
Tax liability on actual taxable income	$\left(\frac{101,750}{1,411,667} \times 1,145,000\right)$		82,529

Tax liability of D

Income from other source			550,000
Less: Zakat			(17,000)
Taxable Income			533,000
Add: Share of profit from AOP for rate purpose	[S.88]		533,333
Taxable income for rate purpose			1,066,333
Tax liability	(10,000 + 466,333 x 10%)	56,633	
Tax liability on actual taxable income	$\left(\frac{56,633}{1,066,333} \times 533,000\right)$		28,308

Answer-3

AOP
Income and tax thereon
TY 20XX

Taxable income of AOP		800,000
Tax liability of AOP	(10,000 + 200,000 x 10%)	30,000

(W-1) Divisible Income

Taxable income of AOP		800,000
Share of E	(800,000 x 1/2)	400,000
Share of F	(800,000 x 1/2)	400,000

Tax liability of E

Income from business			700,000
Income from salary as full time teacher			250,000
Total Income			950,000
Less: Zakat			(3,000)
Taxable Income			947,000
Add: Share of profit from AOP for rate purpose	[S.88]		400,000
Taxable income for rate purpose			1,347,000
Tax liability	(70,000 + 147,000 x 15%)	92,050	
Tax liability on actual taxable income	$\left(\frac{92,050}{1,347,000} \times 947,000\right)$		64,715
Less: Tax credit on charitable donation C is lower of: 20,000 or 30% of 947,000	[S.61]	(92,050/1,347,000) x 20,000	(1,367)
Less: Tax deducted by employer			(2,000)
Payable to Government			61,348

Tax liability of F

Income from business			550,000
Less: Zakat			(18,000)
Taxable Income			532,000
Add: Share of profit from AOP for rate purpose [S.88]			400,000
Taxable income for rate purpose			932,000
Tax liability	(10,000 + 332,000 x 10%)	43,200	
Tax liability on actual taxable income	$\left(\frac{43,200}{932,000} \times 532,000\right)$		24,659
Less: Tax credit on investment in shares [S.62] C is lower of: 35,000 or 20% of 532,000 or 2,000,000	(43,200/932,000) x 35,000		(1,622)
Payable to Government			23,037

Answer-4

AOP
Income and tax thereon
TY 20XX

Taxable income of AOP		450,000
Tax liability of AOP	(50,000 x 5%)	2,500

(W-1) **Divisible Income**

Taxable income of AOP		450,000
Share of G	(450,000 x 1/2)	225,000
Share of H	(450,000 x 1/2)	225,000

Tax liability of G

Income from business			420,000
Total Income			420,000
Less: Zakat	[S.60]		(3,000)
Taxable Income			417,000
Add: Share of profit from AOP for rate purpose	[S.88]		225,000
Taxable income for rate purpose			642,000
Tax liability	(10,000 + 42,000 x 10%)	14,200	
Tax liability on actual taxable income	$\left(\frac{14,200}{642,000} \times 417,000\right)$		9,223
Less: Tax credit on charitable donations [S.61] C is lower of: 30,000 or 30% of 417,000	(14,200/642,000) x 30,000		(664)
Payable to Government			8,559

Tax liability of H

Income from business			550,000
Less: Zakat			(18,000)
Taxable Income			532,000
Add: Share of profit from AOP for rate Purpose	[S.88]		225,000
Taxable income for rate purpose			757,000
Tax liability	(10,000 + 157,000 x 10%)	25,700	
Tax liability on actual taxable income	$\left(\frac{25,700}{757,000} \times 532,000\right)$		18,061

Answer-5

AOP
Income and tax thereon
TY 20XX

Taxable income of AOP			800,000
Tax liability of AOP	(10,000 + 200,000 x 10%)		30,000

(W-1) Divisible Income

Taxable income of AOP			800,000
Share of I	(800,000 x 1/3)		266,667
Share of J	(800,000 x 2/3)		533,333
Tax liability of I			
Income from capital gain			800,000
Income from business			250,000
Total Income			1,050,000
Less: Zakat			-
Taxable Income			1,050,000
Add: Share of profit from AOP for rate purpose [S.88] (266,667+ 25,000)			291,667
Taxable income for rate purpose			1,341,667
Tax liability	(70,000 + 141,667 x 15%)	91,250	
Tax liability on actual taxable income $\left(\frac{91,250}{1,341,667} \times 1,050,000\right)$			71,413
Tax liability of J			

J
Income and tax thereon
For the TY 20XX

Taxable Income			0
Add: Share of profit from AOP for rate Purpose	[S.88]		533,333
Taxable income for rate purpose			533,333
Tax liability		(No need)	
Tax liability on actual taxable income			0

- Sale of personal car has no impact because as per the definition of capital asset personal moveable property is not a capital asset. [S.37(5)]

Answer-6

AB Associates
Taxable Income and Tax Thereon
Tax Year 20XX

		Rs.
Income from Business (W-1)		823,500
Taxable Income		823,500
Tax liability	(10,000 + 223,500 x 10%)	32,350
Add: Tax on FTR	(10,000 x 15%)	1,500
Total tax		33,850
Less: Tax on FTR deducted		(1,500)
Tax payable to government		32,350

Divisible Income

Taxable Income					823,500
Share of Profit		A	B	Total	
Salary		280,000		280,000	
Commission		-	50,000	50,000	
Residential Bill		5,000	-	5,000	
Profit Share(60:40)		293,100	195,400	488,500	(Bal)
		578,100	245,400	823,500	

Tax Liability of Mr. A

Income from Business				600,000
Total Income				600,000
Less: Zakat	[S.60]			(38,000)
Taxable Income				562,000
Add: Share from AOP	[S.88]			578,100
Taxable Income For Rate Purposes				1,140,100
Tax on above	(10,000 + 540,100 x 10%)		64,010	
Actual tax	(64,010/1,140,100 x 562,000)			31,553
Less: Tax Credit u/s 61	(64,010/1,140,100 x 15,000)			(842)
C is lower of				
- Actual Donation		15,000		
- 30% of 562,000		168,600		
Tax payable to Govt.				30,711

Tax Liability of Mr. B

Income from capital gain			
- Shares of private co.	(500,000- 180,000) x 75%		240,000
- Securities			30,000
Total Income			270,000
Less: Income from capital gain – separate block			(30,000)
Taxable income under NTR			240,000
Add: Share from AOP			245,400
Taxable Income For Rate Purposes			485,400
Tax on as above	(85,400 x 5%)	4,270	
Actual Tax	(4,270/ 485,400 x 240,000)		2,111
Add: Tax on Separate block (acquired on or after 1.7.16)	(30,000 x 12.5%)		3,750
Add: Tax on FTR	(10,000 x 15%)		1,500
Total tax			7,361
Less: Tax on Dividend			(1,500)
			5,861

(W-1) Income from Business - AOP

			Rs.
Accounting Profit			279,000
Add:	Accounting Depreciation	[S.21(j)]	180,000
	Salary to Partner-A	[S.21(j)]	280,000
	Commission to Partner –B		50,000
	Depreciation on owned Assets		20.000
	Depreciation on Finance Lease		15,000
	Finance Charges on Leased Assets		2,500
	Provision for doubtful debts	[S.29 (1)]	10,000
	Loss on disposal of Fixed Assets		13,000
	Residential Telephone bills of Partner-A	[S.21(j)]	5,000
	Liability against Purchase	[S.34(5)]	80,000
	Accrued Interest	[S.34(5)]	40,000
			695,500
Less:			
	Tax Depreciation		(90,000)
	Lease Rentals	[S.28(1)(b)]	(18,000)
	Accounting Bad Debts Recovery [S.29(1)(b)]		(33,000)
	Dividend Income to be taxed under FTR		(10,000)
			(151,000)
Income from business			823,500

(W-2) Tax bad debt recovery

Less: Actual Bad Debt		33,000
Less: Previously Allowed	33,000	
	-	(33,000)
Tax Bad Debt Recovery		-

LECTURE NOTES

Question-1

Baqir and Asad are members of an association of persons and share profits and losses in the ratio of 3:2 respectively. Following information has been extracted from BA's profit and loss account for the year ended 31 Dec. 2015:

	Rupees
Sales	30,000,000
Cost of sales	(20,500,000)
Gross profit	9,500,000
Administrative and selling expenses	(4,420,000)
Financial charges (including Rs. 462,000 for assets on lease)	(980,000)
Other income	1,700,000
Profit before taxation	5,800,000

Additional information:

Cost of sales includes:

(i) Provision of Rs. 75,000 against slow moving stores and spares.

(ii) Freight charges of Rs. 260,000. These were paid in cash to Momin Goods Transport for transporting goods to customers in Multan.

Administrative and selling expenses include:

(i) Salary of Rs. 290,000 and Rs. 100,000 paid to Baqir and Asad respectively.

(ii) Bonus of Rs. 310,000 paid to Asad.

(iii) Accounting depreciation of Rs. 600,000. It relates to a car acquired on 1 January 2015, on finance lease for Rs. 3,000,000. (Lease rentals paid during the year amounted to Rs. 857,000. The vehicle has been used 70% for business purposes and 30% for personal use.)

Other income includes:

(i) Capital gain of Rs. 600,000 from sale of shares of a private limited company. Shares were acquired on 1 August 2014. Date of sale is 30 September 2015.

Baqir personal data:

During the year the Baqir besides his share in the firm enjoyed income and sustained losses from the sources given below:

		Rs.
(a)	Income from other source	2,500,000
(b)	Share of a loss from another association of persons	35,000
(c)	Zakat paid	30,000
(d)	Investment in shares given by privatization commission of Pakistan	50,000

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by AOP and Mr. Baqir for tax year 2016. Assume tax and accounting depreciation is same for owned assets. **(12)**

Note:

- ***Your computation should commence with the profit before tax figure of Rs. 5,800,000.***
- ***Show all relevant exemptions, exclusions and disallowances.***

Question-2

A, B and C are members of an association of persons (ABC) and share profits and losses in ratio of 5:3:2 respectively. ABC is engaged in the business of trading consumer electronics and has two independent branches in Tehran and Dubai. Following information has been extracted from ABC's profit and loss account for the year ended 31 December 2018:

	Rupees
Sales	15,000,000
Cost of sales	(8,000,000)
Gross profit	7,000,000
Administrative and selling expenses	(2,000,000)
Financial charges	(1,000,000)
Other income	500,000
Profit before taxation	4,500,000

Cost of sales includes:

Closing stock which is valued at cost which is Rs. 1,300,000. However NRV is 1,100,000.

Administrative and selling expenses include:

(i) Commission of Rs. 290,000 paid to A, annual performance award of Rs. 310,000 paid to B and Rs. 455,000 paid to MCB Bank Limited in final settlement of a loan obtained by C for the construction of his house in Muree.

(ii) Eid milan party expense Rs. 12,000.

(iii) Accounting depreciation for the year amounting to Rs. 400,000. (Tax depreciation is Rs. 300,000)

Other income include:

Profit on debt of Rs. 450,000 earned on fixed deposit account maintained with a bank. The bank withheld income tax amounting to Rs. 45,000. (Tax rates are at end)

Further information

The assessed business losses of tax year 2013 brought forward in year 2019 are Rs. 830,000. These include unabsorbed tax depreciation amounting to Rs. 705,000.

Foreign source income

For the year ended 31 December 2018 Dubai branch made a profit of Rs. 1,500,000 and Tehran branch made a loss of Rs. 1,800,000. These figures are not included in the above profit and loss account.

Mr. A details: He earned Business income of Rs. 600,000.

Required:

(a) Compute taxable income, tax payable by ABC and amount to be carried forward, if any, for tax year 2019.

(b) Calculate tax liability of Mr. A.

Note: Your computation should commence with the profit before tax figure of Rs. 4,500,000. Show all relevant exemptions, exclusions and disallowances. (14)

	Tax rates
Profit on debt (Final Tax income)	**15%**

EXEMPTIONS AND TAX CONCESSIONS

13

1. Agricultural income [Sec. 41]
2. Agriculture produce as raw material [Rule-11]
3. Diplomatic and United Nations exemptions [Sec. 42]
4. Foreign government officials [Sec. 43]
5. Exemptions under international agreements [Sec. 44]
6. President's honour [Sec. 45]
7. Profit on debt [Sec. 46]
8. Scholarships [Sec. 47]
9. Support payments under an agreement to live apart [Sec. 48]
10. Federal Government, Provincial Government, and Local Government income [Sec. 49]
11. Foreign-source income of short-term resident individuals [Sec. 50]
12. Foreign-source income of returning expatriates [Sec. 51]
13. Exemptions and tax concessions in the Second Schedule [Sec. 53]
14. Exemptions and tax provisions in other laws [Sec. 54]
15. Limitation of exemption [Sec. 55]

CHAPTER 13
EXEMPTIONS AND TAX CONCESSIONS

Agricultural income [Sec. 41]

(1) Agricultural income derived by a person shall be exempt from tax.
(2) "Agricultural income" means, -
  (a) any rent or revenue received by a person from land:
   - situated in Pakistan and
   - used for agricultural purposes;

  (b) any income received by a person from land situated in Pakistan from –
   (i) agriculture
   (ii) the performance by a cultivator or receiver of rent-in-kind of process employed for taking the produce to the market; or
   (iii) the sale by a cultivator or receiver of rent-in-kind of the produce, for which no process is performed other than a process described above; or

  (c) income from building is also agricultural income if:
   (i) building is owned and occupied by cultivator or receiver of the rent;
   (ii) building is located in the immediate vicinity of the land used for agricultural purpose
   (iii) building is used as a dwelling-house, a store-house, or other out-building by cultivator or receiver of the rent in-kind due to his connection with agricultural land.

Agriculture produce as raw material [Rule-11]

Where a person who is a cultivator or receiver of rent in kind uses agriculture produce as raw materials in his business, then business income shall be computed as follows:

Total income	xxx
Less: Market value of agricultural produce used in the business as raw material	(xxx)
	xxx

Only above amount can be deducted. No other expense shall be allowed.
The market value shall be calculated as follows:

Scenario	Market price
1. if produce is sold in the market in its raw state or after application of any process ordinarily employed to render it fit to be taken to market	the market price at the time it is used as raw materials in the person's business
2. in any other case	Market price is sum of: a) the expenses of cultivation; and b) the land rent paid for the area in which the produce is grown.

Diplomatic and United Nations exemptions [Sec. 42]

(1), (2) The income of an individual entitled to privileges under the Diplomatic and Consular Privileges Act, and the United Nations Act, shall be exempt.
(3) Any pension received by a citizen of Pakistan because of his former employment in the United Nations. It will be exempt if person's salary from employment was exempt.

Foreign government officials [Sec. 43]

Salary received by foreign government employee for services rendered to foreign government shall be exempt:
Following are the conditions:
(a) the employee is a citizen of the foreign country and not a citizen of Pakistan;
(b) employee performs similar services as are performed by Federal Government employees in foreign country; and
(c) the foreign government gives a similar exemption to employees of the Federal Government.

Exemptions under international agreements [Sec. 44]

(1) Pakistan-source income which Pakistan is not permitted to tax under a tax treaty shall be exempt.

(2) Salary received by an individual (not being a citizen of Pakistan) shall be exempt if mentioned in an Aid Agreement between the Federal Government and a foreign government or public international organization, where –

(a) the individual is:
- either a non-resident or
- a resident because of service under the Aid Agreement;

(b) the Aid Agreement is with a foreign country, the individual is a citizen of that country; and

(c) the salary is paid from funds given to Pakistan.

(3) Any income received by a person (not being a citizen of Pakistan) working as a contractor, consultant, or expert on a project in Pakistan shall be exempt from tax if provided for in a bilateral/multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization, where –

(a) the project is financed out of funds given;

(b) the individual is
- either a non-resident or
- a resident solely because of service under the agreement;

(c) the income is paid out of the funds given.

Exemptions to certain foreign residents or foreign source income of residents

Refer Section 42,43 and 44

President's honour [Sec. 45]

(1) An allowance attached to any Honour, Award, or Medal given to a person by the President of Pakistan shall be exempt from tax.

(2) Any monetary award granted to a person by the President of Pakistan shall be exempt from tax.

Profit on debt [Sec. 46]

Any profit (interest) received by **a non-resident person** on a security issued by a resident shall be exempt from tax if:

(a) the persons are not associates;

(b) the security was widely issued by the resident person outside Pakistan for raising a loan outside Pakistan. The loan is used in a business in Pakistan;

(c) the interest was paid outside Pakistan; and

(d) the security is approved by the Board.

Scholarships [Sec. 47]

Any scholarship granted to a person to meet the cost of education shall be exempt. If the scholarship is paid directly or indirectly by an associate it will not be exempt.

Support payments under an agreement to live apart [Sec. 48]

Any income received by a spouse as support payment under an agreement to live apart shall be exempt from tax.

Federal Government, Provincial Government, and Local Government income [Sec. 49]

(1) The income of the Federal Government shall be exempt from tax.

(2) The income of a Provincial or a Local Government in Pakistan shall be exempt from tax. However "Income from Business" derived by a Provincial/Local Government from a business outside its jurisdictional area will be chargeable to tax.

(3) Any person making payment to the Federal/Provincial/Local Government shall not deduct tax.

(4) Exemption shall not be available in the case of:

a) corporation, company established by or under a Federal or a Provincial law

b) corporation, company set up, owned and controlled, by the Federal or a Provincial Government.

The above rule applies ignoring the fact that the ultimate destination of income resides with Federal or a Provincial Government.

Foreign-source income of short-term resident individuals [Sec. 50]

(1) The foreign-source income of an individual will be exempt from tax if–

(a) he is a resident solely because of his employment; and

(b) he is present in Pakistan for a period or periods not exceeding 3 years.

(2) However under following circumstances foreign-source income of an individual will be chargeable to tax–

(a) any income derived from a business of the person established (outside Pakistan due to presence) in Pakistan; or

(b) any foreign-source income brought into or received in Pakistan.

Foreign-source income of returning expatriates [Sec. 51]

(1) Any foreign- source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the 4 tax years preceding the tax year in which the individual became a resident shall be exempt from tax:

- in the tax year in which the individual became a resident and
- in the following tax year.

(2) Already covered under the head Income from Salary.

Example

Mr. Aslam has been residing in America since 2000. He returned to Pakistan on 13th June 2010. Following is the details of his income.

Income from business	2010	2011	2012	2013
Pakistan source	200,000	500,000	200,000	300,000
Foreign source	600,000	800,000	300,000	600,000

Calculate his taxable income for all the years under the two independent scenarios?

(a) He has not brought all his foreign source income in Pakistan.

(b) He brought all his foreign source income in Pakistan.

Answer

In both cases solution is same as follows:

Income from business	2010	2011	2012	2013
Pakistan source	200,000	500,000	200,000	300,000
Foreign source	Not chargeable as non-reisdent	Exempt as per S. 51(1)	Exempt as per S. 51(1)	600,000
Total	200,000	500,000	200,000	900,000

Exemptions and tax concessions in the Second Schedule [Sec. 53]

(1) The incomes/persons specified in the Second Schedule shall be –
   (a) exempt from tax.
   (b) charged at lower rates.
   (c) allowed a reduction in tax liability.
   (d) exempted from the operation of any provision of this Ordinance.

(1A) Where any income is exempt it shall be included in the total income, however no tax shall be paid on it.

(2) Board may, with the approval of Federal Minister in charge, amend the Second Schedule by adding, omitting or changing any clause or condition.
   All the amendments shall effect any tax year beginning on any date before or after the commencement of the financial year in which the notification is issued.

(3) The Federal Government shall place before the National Assembly all amendments made by it in the 2nd Schedule in a financial year.

Exemptions and tax provisions in other laws [Sec. 54]

A provision in any other law which –
   (a) exempt any tax imposed under this Ordinance;
   (b) reduces the rate of tax under this Ordinance;
   (c) reduces tax liability under this Ordinance; or
   (d) exempt the operation of any provision of this Ordinance

shall have no legal effect unless it is also mentioned in this Ordinance.

Limitation of exemption [Sec. 55]

Where any income is exempt from tax, the exemption shall be limited to the original recipient and shall not extend to any person receiving any payment out of that income.

General example
1. Honda Cars company earned income from business of Rs. 100.
2. It paid Rs. 29 (100 x 29%) as income tax on its income from business.
3. It is decided that Rs. 71 left is to be distributed to shareholders as dividend.
4. Now Honda while making payment of dividend will deduct tax of Rs. 10.65 (71 x 15%).

Example of section 55
1. A company earned agricultural income of Rs. 100.
2. It paid Rs. 0 as income tax on its income from business because agricultural income is exempt.
3. It is decided that Rs. 100 is to be distributed to shareholders as dividend.
4. Now Company while making payment of dividend will deduct tax of Rs. 15 (100 x 15%) because exemption was available to the original recipient of income only, it will not extend to shareholder receiving dividend out of company's income from business.

ICAP PAST PAPER QUESTIONS

Question-1

Mr. Ali, a Pakistani Citizen, returned to Pakistan in November 2004 after completing his employment contract in United Arab Emirates (UAE). He worked till October 2004 in UAE where there was no tax on salaries .Mr. Ali is in Pakistan since then and has been employed by a local company.

Explain the tax implication on Mr. Ali's income, earned in UAE and Pakistan, for the tax year 2005. **(04)**

(Q.4(b) March 2006)

Question-2

Mr. Abdullah, an employee of a Malaysian based company, has been assigned to work in Karachi, in its subsidiary company which is registered under the Companies Act, 2017. The initial assignment of two years commenced on March 1, 2009 and would be extended subject to mutual agreement.

Mr. Abdullah's remuneration will be paid in Malaysia, details of which are given below:

Nature of Income	Amount in Equivalent
	Rupees
Pakistan source salary income for the tax year 2009	5,750,000
Pakistan source salary income for the tax year 2010	17,250,000
Foreign source salary income for the tax year 2009	12,000,000
Foreign source salary income for the tax year 2010	3,000,000

Required:

(a) Explain the residential status of Mr. Abdullah under the Income Tax Ordinance, 2001 for the tax year 2009 and 2010. **(02)**

(b) Compute taxable income of Mr. Abdullah for the tax years 2009 and 2010. Support your computation with appropriate comments. **(08)**

(Q.5 September 2009)

Question-3

Margaret, a German national was employed as a Technical Manager of Faiza Chemicals Limited, a resident company, on 1 October 2010 for a term of two years. Under the terms of employment, she was allowed to deliver lectures at various professional organizations. During tax year 2012, she conducted three workshop sessions, the details of which are as follows:

- Workshop Session in Lahore: A fee of US$ 15,000 in equivalent Pak Rupees was received from a local event manager. The fee was credited to her bank account maintained in Karachi.
- Workshop Session in Munich: A fee of US$ 25,000 was received in Germany in her Munich bank account.
- Workshop Session in Dubai: A fee of US$ 20,000 was remitted to her bank account in Karachi.

Required:

Discuss the taxability of the amounts received by Margaret for conducting the workshop sessions during tax year 2012. **(06)**

(Q.3(b) September 2012)

Question-4

Explain the treatment of foreign source income for tax year 2017 under the following independent situations:

(i) Joseph, a South African cricket coach is working in Pakistan under an employment contract since 20 July 2014. During the tax year 2017, he earned foreign source income from his business established in South Africa and brought 25% of the income to Pakistan. **(04)**

(ii) On 15 January 2016 Farhan returned to Pakistan from London after 10 years and has been living in Pakistan since then. During the tax year 2017, he received GBP 5,000 as return from his investment in London. **(02)**

(Q.2 (b) September 2017)

Question-5

Under the provisions of the Income Tax Ordinance, 2001 compute taxable income or loss under correct head of income for tax year 20X8, in the following case:

Mrs. Raees separated from her spouse due to certain disagreements. Under an agreement to live apart, her spouse provided her a house and paid cash of Rs 150,000 per month as support payment. The fair market rent of the house is Rs.50,000 per month. (02)

(Q.2 (a) March 2018)

Question-6

Nadeem has agricultural land in Thatta which is being used for the cultivation of sugarcane. During the year, he cultivated 200,000 tonnes of sugarcane. Out of total cultivation, 140,000 tonnes of sugar cane was sold to a sugar mill at a price of Rs. 4,550 per ton whereas the remaining quantity was utilized in his own sugar mill. During the year, there were no other purchases of sugar cane by his sugar mill. The sale of his sugar mill stood at Rs. 310 million whereas total expenses other than the raw material amounted to Rs. 19 million. There was no opening and closing stock of sugarcane.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income of Nadeem for the tax year 20X8. (04)

(Q.4 (a) March 2018)

Question-7

Mohsin has been working at the head office of Lewis Consulting, Inc. (LCI) situated in New York, USA. On 1 January 20X8, LCI had established its branch office in Pakistan and had sent Mohsin for two years as Country Manager for looking after the Pakistan operations.

During the tax year 20X9, apart from salary income, Mohsin earned/received the following amounts:

- On 15 December 20X8, he conducted a seminar in USA for a fee of USD 18,000. On his request, the event manager transferred the amount (net of tax) directly to his personal bank account in Islamabad on 10 January 20X9.
- On 31 May 20X9, he earned income from his business established in USA and brought 40% of the income to Pakistan.

Required:

Under the Income Tax Ordinance, 2001:

(i) state the residential status of Mohsin for the tax year 20X8. (01)

(ii) discuss the taxability of his foreign source incomes for the tax year 20X9. (04)

(Q.2 (b) March 2019)

Question-8

On 1 July 20X1, Mrs. Ahmed separated from her spouse and decided to live apart with her six years old son. Below are the extracts of clauses from the agreement to live apart:

(i) Mr. Ahmed will pay Rs. 50,000 in cash every month to his spouse.

(ii) Mr. Ahmed will continue to pay his son's monthly school fee of Rs. 10,000.

(iii) Mr. Ahmed will transfer the ownership of a shop in her spouse's name. The shop was already in use by a tenant at a monthly rent of Rs. 88,000. Mrs. Ahmed will be entitled to receive the rent from the date of transfer of ownership in her name.

On 1 September 20X1, the ownership of the shop was transferred in her name.

Required:

Under the provision of the Income Tax Ordinance, 2001 briefly explain the tax treatment of the above arrangement in the income tax return of Mrs. Ahmed for the tax year 20X2. Also specify the head of income under which each of the above receipts will be classified.

(Computation is not required) (04)

(Q.4(a) March 2021)

Answer-1

This was a slightly difficult question but many candidates were able to give a reasonable explanation on the tax implication on income earned in UAE and Pakistan.

Any foreign- source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the four tax years preceding the tax year in which the individual became a resident shall be exempt from tax under this Ordinance in the tax year in which the individual became a resident individual and in the following tax year. [S.51(1)]

Assuming that stay of Ali is more than 4 years, the foreign source salary is treated as exempt. If we assume that his stay is for a period of less than 4 years the salary would be taxable because no foreign tax is paid.

The income earned in Pakistan is fully taxable.

Answer-2

a) He is non-resident for TY 2009 as his stay in Pakistan is less than 183 days **[Sec. 82]**. He is resident for TY 2010 as his stay in Pakistan is more than 183 days.

b)

Nature of income	**Amount in Rupees**	**Taxable/ exempt**	**Taxable amount**
Tax Year 2009			
Pakistan source income	5,750,000	Taxable	5,750,000
Foreign source income	12,000,000	Exempt(N-1)	-
Taxable income			**5,750,000**
Tax Year 2010			
Pakistan source income	17,250,000	Taxable	17,250,000
Foreign source income	3,000,000	Exempt (N-2)	-
Taxable income			**17,250,000**

Note 1

Since he is non-resident for the tax year 2009, only his Pakistan source income is taxable. [S.11(6)]

Note 2

Foreign source income of Mr. Abdullah is exempt from tax because: [S.50]

- he is a resident individual in Pakistan solely by reason of the individual's employment;
- he is present in Pakistan for a period or periods not exceeding three years. and
- his foreign source income was not received in Pakistan.

Answer-3

Workshop Session in Lahore

As it is Pakistan Source income of resident, therefore it is chargeable to tax in normal way.

Workshop Session in Munich

As per the provisions of ITO, 2001 [S.50], the foreign-source income of an individual will be exempt from tax if–

(a) he is a resident individual solely by reason of the individual's employment; and

(b) he is present in Pakistan for a period or periods not exceeding three years.

As she is resident individual solely by reason of the individual's employment and she is present in Pakistan for a period or periods not exceeding three years, therefore her income from rendering services in Munich being foreign source income is exempt from tax.

Workshop Session in Dubai

As per the provisions of ITO, 2001 [S.50], foreign-source income of an individual will be exempt from tax if–

(a) he is a resident individual solely by reason of the individual's employment; and

(b) he is present in Pakistan for a period or periods not exceeding three years.

However if any foreign-source income is brought into or received in Pakistan by the person than it will not be exempt. As the income is remitted to her bank account in Karachi, therefore it is taxable.

Answer-4

i)

The foreign-source income of an individual will be exempt from tax if–

(a) he is a resident solely because of his employment; and

(b) he is present in Pakistan for a period or periods not exceeding 3 years.

However foreign-source income will be chargeable to tax if it is brought into or received in Pakistan. [S.50]

As Mr. Joseph is a resident solely because of his employment and he is present in Pakistan for a period or periods not exceeding 3 years therefore 75% income from business earned in South Africa will be exempt from tax. Remaining 25% will be chargeable to tax as it is brought into Pakistan. [S. 50 (2) (b)]

ii)

Any foreign source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the 4 tax years preceding the tax year in which the individual became a resident shall be exempt from tax;

- in the tax year in which the individual become a resident and
- in the following tax year.

Since Farhan is returning expatriate so his foreign source income from investment in London in TY 2017 is exempt from tax. In the given situation he became resident in TY 2017.

Answer-5

Taxable income (Note)

Note: Any income received by a spouse as support payment under an agreement to live apart shall be exempt from tax. Therefore Rs 150,000 per month as support payment and the fair market rent of the house Rs.50,000 per month is exempt from tax.

Answer-6

		Rs. in mill.
Taxable income		
Agricultural income – Exempt	(Rs. 4,550 x 140,000) = Rs. 637 mill.	
Income from business		310
Gross revenue		(273)
Less: Fair value of produce	(Rs. 4,550 x 60,000)	(19)
Less: Other expenses		18
Taxable income		18

Answer-7

i) An individual shall be a resident individual for a tax year if the individual is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year. As Mohsin is present in Pakistan for a period of 181(31+28+31+30+31+30) days in tax year 20X8, he would be considered as non-resident for tax year 20x8.

ii) The foreign-source income of an individual will be exempt from tax if–

a) he is a resident solely because of his employment; and

b) he is present in Pakistan for a period or periods not exceeding 3 years.

However under following circumstances foreign-source income of an individual will be chargeable to tax if any foreign-source income is brought into or received in Pakistan. [S.50]

Mohsin has earned fee of USD 18,000 in USA. However, the amount has been brought into Pakistan on 10 January 20x9 to his personal bank account. Therefore this foreign source income will be taxable because it is brought into Pakistan.

Similarly, income from business earned in USA will also be taxable to the extent it is received in Pakistan i.e. 40%.The remaining 60% will remain exempt as all of the above mentioned conditions are fulfilled.

Answer-8

Any income received by a spouse as support payment under an agreement to live apart shall be exempt from tax. As Rs. 50,000 (monthly payment) are being received by Mrs. Ahmed under an agreement to live apart, this amount will be exempt from tax. Similarly the school fee paid by Mr. Ahmed of Rs. 10,000 will also be exempt in hands of Mrs. Ahmed.

Rent received from shop will be considered as income of Mrs. Ahmed and it will be classified under the head Income from Property of Mrs. Ahmed. The rent amount will be included in income from the date of transfer of ownership of shop i.e. 01 September 20X1. Total amount to be included in Mrs. Ahmed income under the head income from property for the tax year 20X1 is Rs. 880,000 (88,000 x 10).

LOSSES

14

1. Set off of losses [Sec. 56]
2. Set off of losses of companies operating hotels [Sec. 56A.]
3. Carry forward of business losses [Sec. 57]
4. Carry forward of speculation business losses [Sec. 58]
5. Carry forward of capital losses [Sec. 59]
6. Limitations on set off and carry forward of losses [Sec. 59A]
7. Foreign losses [Sec. 104]

CHAPTER 14
LOSSES

Set off of losses [Sec. 56]

(1) A person can set off a loss under a head of income against any other head for the year except income under the head salary.
However loss of capital gain and speculation business in current year cannot be set off against any other head.

(2) A loss under any head of income which is not set off, cannot be carried forward to next year. However loss under following heads can be carried forward:
- a. Income from business – non speculation
- b. Income from business –speculation
- c. Income from capital gain

(3) If there is a loss under the head "Income from Business" (non-speculative business) and a loss under another head, the priority will be given to another head.

No loss can be adjusted against following incomes:
- income falling under final tax regime (such as dividend income) or
- separate block incomes (such as gain on securities)
- Exempt income (such as agricultural)

Rules for Current Year

1- IFS کے "Profit" میں سے کسی اور Head کا "loss" Minus نہیں کیا جاسکتا

2- "IFB (spec.)" اور "IFCG" کا loss کسی اور Head کے profit میں سے Minus نہیں کیا جاسکتا۔

Conclusion

1 IFS کا profit "-" کرنے کے لیے Ready نہیں۔

2 IFCG, IFB(speculation) کا Loss "-" ہونے کے لئے Ready نہیں

Rule for Carry forward

3- IFB (Spec.) , IFB (non-spec.) اور IFCG کا Loss اگر Current year میں کسی اور Head میں سے Minus نہیں ہو سکا تو اگلے 6 سال c/f ہو کر Same Head کے Profit میں سے Minus ہو گا۔

Carry forward of business losses [Sec. 57]

(1) , (2) If loss in a tax year under "Income from Business" (non-speculation) is not set off in the current tax year, then unadjusted loss shall be carried forward against future business income (non-speculation) upto 6 tax years next following the tax year in which the loss occurred.

(2B) The loss of a resident company engaged in hotel business in Pakistan (after the first day of July 2020) shall be carried forward for a period of 8 years.

(3) The loss of the earliest tax year shall be set off first.

(4) The loss due to depreciation, amortisation and initial allowance deductions (allowed under sections 22, 23 and 24) that has not been set off, it shall be set off against the income from business (after setting off loss under sub-section (1)), in the following tax year and so on until completely set off. The amount not setoff shall be added the relevant amounts in following years.
If taxable income for current year is equal to or more than Rs.10 million than brought forward depreciation, amortization and initial allowance shall be set off against 50% of income.

(5) The deductions relating to deprecation, initial allowance and amortization shall be adjusted at last.

Example

		Rs. in million
Profit before Depreciation	2015	26
Tax Depreciation	2015	4
Other Information		
Loss Before Depreciation	2014	15
Tax Depreciation (unabsorbed)	2014	8

Required: Calculate taxable income and loss to be carried forward.

Solution:

Profit before Depreciation	2015	26
Less : Loss Before Depreciation	2014	(15)
		11
Less: Tax Depreciation (lower of):	- (b/f) = 8 - (11 x 50%) = 5.5	(5.5)
		5.5
Less: Tax Depreciation (c/y)		(4)
Taxable Income		**1.5**
carried forward tax depreciation	(8 - 5.5)	2.5

Carry forward of speculation business losses [Sec. 58]

(1) Loss under the head speculation business for the current tax year shall be set off against any other speculation business for the current year.

(2) If the loss is not wholly set off, the unadjusted loss shall be carried forward against future speculation business income upto 6 tax years next following the tax year in which the loss occurred.

(3) The loss of the earliest tax year shall be set off first.

Carry forward of capital losses [Sec. 59]

(1),(2) Loss under the head "Capital Gain" for the current tax year shall not be set off against any other head of income, but loss shall be carried forward and will be adjusted against future capital gain income upto 6 tax years next following the tax year in which the loss occurred.

(3) The loss of the earliest tax year shall be set off first.

Limitations on set off and carry forward of losses [Sec. 59A]

(4) (b) A person who has succeeded another person in a business (except inheritance), he cannot set off (or carry forward) the loss of other person arising under section 56, 57, 58 or 59 against his income.

Note for students: Also refer Chapter 12 AOP for remaining provisions of Sec. 59A

Note: Also write down S. 57 (4).

Foreign losses [Sec. 104]

(1) Deductible expenses in deriving foreign-source income under a head of income shall be deductible only against that income.

(2) If expenses exceed the foreign source income under a head of income, the foreign loss shall be carried forward and will be adjusted against future income under the same head upto 6 tax years next following the tax year in which the loss occurred.

(3) The loss of the earliest tax year shall be set off first.

(4) For apportionment of deduction (as per S. 67) -

(a) speculation business is a separate head of income; and

(b) foreign source income and Pakistan source income shall be separate heads.

1) Foreign loss cannot be setoff against:
- Pakistan Source income
- Any other foreign source income

2) Foreign loss will only be carried forward and will be adjusted against the same foreign source income in the next years.

Example-1 [S. 104 (1) and (3)]

Details of Mr. Yasir's "foreign source" incomes and expenses for tax year 2016 are as under:

	Business	Other Source
Gross income	50	50
Expenses	70	40

Required:

Calculate taxable income?

Answer

Step-1

Income from Business	(50-70)	(20)
Income from Other Source	(50-40)	10

Note: Deductible expenses in deriving foreign-source income under a head of income shall be deductible only against that income [S. 104(1)].

Step-2

Income from Other Source	10
Taxable income	10
Income from Business– Loss C/f	20

Note: If expenses exceed the foreign source income under a head of income, the foreign loss shall be carried forward.

Example-2 [S. 104 (4)]

Following are the details of income provided by Mr. Tayyab for tax year 2016:

Rs. in mill.

	Gross receipt	Expense
Pakistan business (non-speculation)	80	10
France business (non-speculation)	25	5
France business (speculation)	37	7
	142	22

Additional information:

In addition to the above expenses, Tayyab incurred an advertisement expense costing Rs 6 million for his business promotion and the advertisement was simultaneously broadcasted in Pakistan and France.

Required:

Calculate taxable income?

Solution:

Mr. Tayyab

Pakistan business (N-S)	(80 - 10 - 3)	67
France business (N-S)	(25 - 5 -1)	19
France business (S)	(37 - 7 -2)	28
Taxable income		114

(Working) Apportionment of advertisement

Pakistan business (non-speculation)	(6/142x80)	3
France business (non-speculation)	(6/142x25)	1
France business (speculation)	(6/142x37)	2

Examples

Calculate Taxable income in all cases

Example 1

Mr. Asim has provided you the following details:

	TY 2010	TY 2011
Income From Salary	200,000	-
Income From Business (Non-speculation)	(600,000)	700,000

Solution

TY 2010

Income From Salary	200,000
Income From Business (Non-speculation)	-
Taxable income	200,000

Business loss of Rs. 600,000 will be carried forward till TY 2016.

TY 2011

Income From Business	700,000
Less: b/f business loss – TY 2010	(600,000)
Taxable income	100,000

Example 2

	2009	2010	2011	2012	2013	2014	2015	2016
Income From Other source	200,000	100,000	50,000	-	-	-	-	-
Income From Business	(400,000)	50,000	20,000	30,000	10,000	15,000	10,000	448,000

Solution

TY 2009

Income From Other Source		200,000
Income From Business		(400,000)
Taxable income		-
Carry forward business loss		200,000

TY 2010

Income From Other Source		100,000
Income From Business	50,000	
Less: b/f business loss	(200,000)	-
Taxable income		100,000
Carry forward of business loss		150,000

TY 2011

Income From Other Source		50,000
Income From Business	20,000	
Less: b/f business loss	(150,000)	-
Taxable income		50,000
Carry forward of business loss		130,000

TY 2012

Income From Business	30,000
Less: b/f business loss	(130,000)
Taxable income	-
Carry forward of business loss	100,000

TY 2013

Income From Business	10,000
Less: b/f business loss	(100,000)
Taxable income	-
Carry forward of business loss	90,000

TY 2014	
Income From Business	15,000
Less: b/f business loss	(90,000)
Taxable income	-
Carry forward of business loss	75,000
TY 2015	
Income From Business	10,000
Less: b/f business loss	(75,000)
Taxable income	-
Dead loss	65,000
TY 2016	
Income From Business	448,000
Taxable income	448,000

Example 3

Income From Business	(150,000)
Income From Salary	20,000

Solution

Income From Salary	20,000
Taxable income	20,000
Carry forward business loss	150,000

Example 4

	2010	2011	2012
Income From Business (Speculative)	300,000	(80,000)	40,000
Income From Business (Non-Speculative)	(400,000)	600,000	900,000
Income From Capital Gains	200,000	(90,000)	70,000

Solution

TY 2010	
income from business (S)	300,000
Income From Capital Gains	200,000
	500,000
Less: Income From Business (N-S)	(400,000)
Taxable Income	100,000

TY 2011		
Income From Business (N-S)		600,000
Taxable Income		600,000
C/f Speculation loss		(80,000)
C/f Capital loss		(90,000)
TY 2012		
Income From Business (NS)		900,000
Income From Business (S)	40,000	
Less: b/f loss from business (S)	(80,000)	-
Income From Capital gain	70,000	
Less: b/f loss from capital gain	(90,000)	-
Taxable Income		900,000
C/f Speculation loss		(40,000)
C/f Capital loss		(20,000)

Example 5

	TY 2010	TY 2011
Income From Business (Speculative)	(200,000)	(100,000)
Income From Business (Non-Speculative)	(400,000)	40,000
Income From Other Sources	150,000	25,000

Solution

TY 2010		
Income From Other Sources		150,000
Income From Business (N-S)		(400,000)
Taxable income		-
C/f of losses:		
- Income From Business (S)		200,000
- Income From Business (N-S)		250,000
TY 2011		
Income from other sources		25,000
Income From Business (N-S)	40,000	
Less: b/f loss from business (N-S)	(250,000)	-
Taxable income		25,000
C/f of losses:		
Income From Business (S)		
- 2010	200,000	
- 2011	100,000	300,000
Income From Business (N-S)		210,000

Example 6

	TY 2010	TY 2011
Income From Salary	25,000	90,000
Income From Business (N-S)	40,000	(30,000)
Income From Capital Gains	(80,000)	45,000
Income From Business (S)	(200,000)	50,000

Solution

TY 2010		
Income From Salary		25,000
Income From Business (N-S)		40,000
Taxable income		65,000
C/f of losses:		
Income From Capital Gains		80,000
Income From Business (S)		200,000
TY 2011		
Income From Salary		90,000
Income From Capital Gains	45,000	
Less: b/f capital loss	(80,000)	-
Income From Business (S)	50,000	
Less: b/f loss from speculative business	(200,000)	-
Taxable income		90,000
C/f of losses:		
Income From Capital Gains	35,000	
Income From Business (S)	150,000	
Income From Business (N-S)	30,000	

Example 7

Income From Capital Gain	600,000
Income From Business	(700,000)
Income From Other Sources	(200,000)

Solution

Income From Capital Gain	600,000
Income From Other Sources	(200,000)
	400,000
Income From Business	(700,000)
Taxable income	-

C/f of loss:
Income From Business — 300,000

Example 8

Income From Capital Gain	600,000
Income From Business	(200,000)
Income From Other Sources	(700,000)

Solution

Income From Capital Gain	600,000
Income From Other Sources	(700,000)
Taxable income	-
Dead loss Income from Other Sources	100,000
C/f of loss: Income From Business	200,000

Example 9

Income From Business (N-S)	– Shop A	200,000
Income From Business (N-S)	– Shop B	(150,000)
Income From Business (N-S)	– Shop C	(80,000)
Income From Salary		80,000
Income From Business (S)	– Transaction D	40,000
Income From Business (S)	– Transaction E	(50,000)
Income From Business (S)	– Transaction F	20,000
Income From Capital Gains		50,000
Income From Other Sources		90,000

Solution

Above data can be simplified as follows:

Income From Business (N-S)	(200,000 – 150,000 – 80,000)	(30,000)
Income From Salary		80,000
Income From Business (S)	(40,000 – 50,000 + 20,000)	10,000
Income From Capital Gains		50,000
Income From Other Sources		90,000

<u>Now we start solving question:</u>

Income From Salary		80;000
Income From Other Sources	90,000	
Income From Business (S)	10,000	
Income From Capital Gains	50,000	
	150,000	
Income From Business (N-S)	(30,000)	120,000
Taxable Income		200,000

Example 10

Following data is provided:

	2011
Income From Business (Non-Speculative)	700,000
Income From Other Sources	(800,000)
b/f loss: Income From Business – 2009	400,000

Solution

Income From Business (N-S)	700,000
	(800,000)
	0
Income From Other Sources	100,000
Taxable income	
Dead loss Income from Other Sources	
C/f of loss: Income From Business	400,000

Example 11

Income From Business	600,000
Income From Capital Gains	(400,000)

Solution

Income From Business	600,000
Taxable Income	600,000
C/f of loss:	
Income From Capital Gains	400,000

Example 12

Income From Capital Gains	600,000
Income From Business	(400,000)

Solution

Income From Capital Gains	600,000
Income From Business	(400,000)
Taxable Income	200,000

Example 13

Following data is provided for TY 2011:

		TY 2011
Income From Business (N-S)		700,000
b/f losses:		
Income From Business (N-S)	- 2005	(600,000)
	- 2008	(180,000)

Solution

Income from business (N-S)	700,000
b/f loss – 2005	(600,000)
	100,000
b/f loss – 2008	(180,000)
	-
C/f of loss	
- Income from Business	80,000

Example 14

Income From Business	- PSI	600,000
Income From Other Sources	- PSI	301,000
Income From Business	- FSI	(200,000)
Income From Capital Gains	- FSI	400,000

Solution

Income From Business	- PSI	600,000
Income From Other Sources	- PSI	301,000
		901,000
Income From Capital Gains	- FSI	400,000
Taxable income		1,301,000
c/f of loss		
Income From Business	- FSI	200,000

Some more Examples

Example-1

Mr. B has disclosed following data for TY 2011. He also works on part time basis in ABC Company limited.

	Rs.
Income from Salary	50,000
Income from business X (non speculative)	(700,000)
Income from business Y (speculative)	200,000
Income from other sources	(100,000)
Income from Capital Gains	50,000

Compute the amount of loss to be carried forward.

Solution

	Rs.	
Income from Salary		50,000
Income from Capital Gains	50,000	
Income from Business Y (speculative)	200,000	
	250,000	
Less: Loss Income from other sources	(100,000)	
	150,000	
Income from business X (Non-Speculation)	(700,000)	-
Taxable income		50,000
Loss from non-speculation business to be carried forward		(550,000)

Loss under the head **"Income from other sources"** is adjusted first because loss under the head Income from other sources cannot be carried forward whereas loss under the head **"Income from business"** can be carried forward. Business loss (Non-Speculation) of Rs. 550,000 will be carried forward till TY 2017.

Example-2

	Profit/ (loss) After depreciation	Depreciation
Income from business-TY 2010	50,000	160,000
B/f loss-TY2009	(600,000)	170,000

Calculate taxable income for TY 2010 and loss to be carried forward?

Solution

Tax year 2010

Income from Business current year before depreciation (50,000 + 160,000)	210,000
Less: B/f loss of Tax Year 2009 before depreciation (- 600,000 + 170,000)	(430,000)
Taxable income	Nil
Business Loss to be carried forward related of Tax year 2009	(220,000)
Depreciation to be carried forward (160,000 +170,000)	330,000

Example-3

a) Assessments completed

Tax year	C/f loss for the year after unabsorbed depreciation	Unabsorbed depreciation
2002	200,000	5,000
2003	30,000	5,000
2004	20,000	10,000
2005	10,000	5,000
2006	10,000	5,000

b) Assessments under audit

Tax Year	Profit before tax depreciation	Tax depreciation
2007	30,000	10,000
2008	10,000	30,000
2009	220,000	20,000

Calculate taxable income for the tax year 2009 after adjustment of losses

Solution

TAX YEAR 2007

Profit before depreciation		30,000
Less: B/f business loss before depreciation of 2002		(195,000)
Taxable income		0
c/f Loss before depreciation 2002	165,000	
c/f Loss before depreciation 2003	25,000	
c/f Loss before depreciation 2004	10,000	
c/f Loss before depreciation 2005	5,000	
c/f Loss before depreciation 2006	5,000	
c/f Depreciation (5,000 + 5,000 + 10,000 + 5,000 + 5,000 + 10,000)	40,000	

TAX YEAR 2008

Profit before tax depreciation		10,000
Less: B/f normal business loss before depreciation of 2002		(165,000)
Taxable income		0
Dead loss 2002	155,000	
c/f Loss before depreciation 2003	25,000	
c/f Loss before depreciation 2004	10,000	
c/f Loss before depreciation 2005	5,000	
c/f Loss before depreciation 2006	5,000	
c/f Depreciation (40,000 + 30,000)	70,000	

TAX YEAR 2009

Profit before tax depreciation		220,000
Less: B/f business loss before depreciation:		
2003	25,000	
2004	10,000	
2005	5,000	
2006	5,000	(45,000)
		175,000
Less: Brought forward tax depreciation		(70,000)
		105,000
Less: Tax depreciation for the year		(20,000)
Taxable income for the tax year 2009		85,000

ICAP PAST PAPER QUESTIONS

Question-1

A taxpayer was dealing in the business of textile garments during the tax year 2005 has earned income of Rs. 199,237. He has assessed brought forward losses for the tax year 2004 as follows:

- business of steel Rs. 101,356
- sales of shares of private company Rs. 105,505

You are required to work out his total income for tax year 2005.

(5)

(Q.6 March 2001)

Question-2

Please write a brief note about the adjustment of loss incurred under any head of income in the current year. (3)

(Q.6 September 2002)

Question-3

Briefly explain the law relating to set-off and carry forward of losses?

(7)

(Q.3 (b) September 2003)

Question-4

Describe the provisions relating to set-off and carry forward of foreign losses under the Income Tax Ordinance, 2001?

(3)

(Q.8 September 2004)

Question-5

The records of Mr. A show the following results:

Particulars	Rs.
Loss under the head "income from other source" after setting off dividend income of Rs. 30,000	(20,000)
Income from speculation business	10,000
Capital gains on disposal of shares of private limited companies	20,000
Loss from textile business after considering tax depreciation of Rs.290,000	(410,000)

You are required to work out the following:

i. taxable income;
ii. tax liability; and
iii. amount of loss that can be:
   - adjusted against any other head of income;
   - carried forward for a maximum of six years;
   - carried forward for indefinite period.

(6)

(Q.7 (b) March 2006)

Question-6

What do you understand by the term "speculation business" as referred to in the Income Tax Ordinance, 2001? Briefly discuss the rules relating to set off and carry forward of losses arising out of speculation business. (4)

(Q.4 (b) March 2007)

Question-7

Under the Income Tax Ordinance, 2001 a deduction for capital loss is allowed when consideration received on disposal of a capital asset is less than its cost. What is the exception to this rule? (6)

(Q.6 (a) March 2007)

Question-8

Discuss the provisions of the Income Tax Ordinance, 2001 regarding set off and carry forward of losses under the heads "Income from Business" and "Capital Gains". (7)

(Q.6 (b) March 2009)

Question-9

Mr. Imran Emad (IE) formed his business two years ago. During the latest tax year, IE's Pakistan source income amounted to Rs. 2,500,000.

Following are the details of its foreign source incomes, tax paid thereon and foreign losses brought forward for the latest tax year:

Heads of income	Foreign income	Foreign tax paid	Foreign losses brought forward
	-------------------	-Rupees-	-------------------
Speculation business	500,000	125,000	(250,000)
Non-speculation business	(1,000,000)	-	-
Capital gains	750,000	75,000	(1,500,000)
Other sources	1,250,000	187,500	-

The foreign tax credit relating to income from other sources which remained unadjusted during the last tax year amounted to Rs. 50,000.

Required:

Calculate total tax payable and foreign tax losses to be carried forward to next year (if any). (8)

(Q.3 (b) March 2013)

Question-10

Explain the term 'Foreign losses'. State the provisions relating to set off and carry forward of foreign losses, under the Income Tax Ordinance, 2001. (4)

(Q.6 (b) March 2014)

Question-11

Aslam is a resident taxpayer who operates his business from Lahore (LHR) and Paris (PAR). In August 2014, he established a new branch in Berlin (BER).

Following information is available in respect of his business operations for tax year 2015:

	LHR	PAR	BER
	-------Rs.	in million	------
Income / (loss) from business	29	40	(15)
Advance taxes paid in respective countries during the year	10	5	3
Income from capital gain (net of income tax of Rs. 3 million)	-	27	-
Carried forward losses:			
Loss from business	-	55	-
Capital loss	-	6	-

The following amounts paid by Aslam in respect of BER have been charged to LHR:

i. salaries for the first three months amounting to Rs.5 million.

ii. rent expense for the year amounting to Rs.7 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 calculate the tax payable by Aslam in the tax year 2015 and foreign tax losses to be carried forward to next year, if any. (09)

(Q.6 March 2015)

Question -12

Lone Traders (LT), a sole proprietorship, is engaged in the business of buying and selling of Maize and Wheat in bulk quantities. Following information has been extracted from LT's records for the year ended 31 December 2015:

(i) Wheat sold to food companies in Punjab amounted to Rs. 13,000,000. The sale was made after allowing discount of Rs. 680,000 to some of the new customers. The gross profit margin was 25% on gross sales.

(ii) LT paid Rs. 600,000 to a research institute for the development of a formula which is likely to improve the quality of wheat it purchases from the growers.

(iii) In August 2015, LT signed a future contract with Mubarak Enterprises (ME) for the purchase of 500 metric tons of maize at Rs. 15,800 per metric ton. The delivery was expected to be made in October 2015. ME also agreed to repurchase the entire lot at the price prevailing on the date of sale.

(iv) In October 2015 price of maize increased to Rs. 18,240 per metric ton and LT sold the entire lot to ME without taking delivery.

(v) LT incurred expenditure of Rs. 25,000 in respect of above future contract.

(vi) Administrative, selling and distribution expenses amounted to Rs. 2,500,000. These included a penalty of Rs. 45,000 which was imposed due to late payment of sales tax on wheat.

(vii) Assessed losses brought forward from previous year were as follows:

	Rupees
Trading business loss	550,000
Speculation business loss	300,000
Capital loss	250,000

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute LT's taxable income/(loss) and the amount of loss to be carried forward, if any, for tax year 2016. (10)

(Q.1 March 2016)

Question-13

On 1 July 2015 Mehreen joined a local newspaper as an investigative journalist at a salary of Rs. 300,000 per month. Tax deducted u/s 149 from her salary amounted to Rs. 40,000 per month.

Following are the details of her income received from Germany; tax paid thereon and brought forward foreign losses for tax year 2016:

Heads of income	Foreign income/ (loss)	Foreign tax paid	Foreign losses brought forward
	-----Rupees-----		
Speculation business	600,000	110,000	(380,000)
Non-speculation business	1,480,000	187,600	-
Other sources	(1,500,000)	-	-
Capital gain	950,000	76,000	(1,800,000)

On 1 May 2016 Mehreen resigned from her current job and joined Akhbar Merhaba (AM), an Arabic newspaper in Dubai, as editor-in-chief on a monthly salary equivalent to PKR 1,200,000. AM paid 50% of her salary in Dubai and remitted the remaining 50% to her bank account in Pakistan through normal banking channel. Mehreen remained in Dubai during the rest of the tax year 2016.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by or refundable to Mehreen for tax year 2016 and the amount of foreign losses or foreign tax credit, if any, to be carried forward. (10)

(Q.8 September 2016)

Note: Show all relevant exemptions, exclusions and disallowances.

Question-14

Discuss the provisions of the Income Tax Ordinance, 2001 regarding set off and carry forward of losses under the following heads:

(i) Income from business (05)

(ii) Income from speculation business (04)

(Q.4 (c) March 2018)

Question-15

Jamil and Company (JC) is the sole trader of a branded tea in Pakistan. In addition to the trading business, JC is also engaged in forward purchasing and selling of tea to reap the benefits of price fluctuation in local and international markets. Following information has been extracted from the records of JC for the year ended 30 June 20X8:

(i) Detail of trading and speculation businesses (forward purchase and sale) were as follows:

	Trading business	Speculation business
	------ Rs. in million ------	
Gross revenue	400	200
Gross profit	20	10

(ii) Total administrative and general expenses for the year amounted to Rs. 7.2 million. This amount includes a penalty of Rs. 0.4 million paid to the custom authorities.

(iii) Assessed carried forward losses from previous years are as follows:

	Rs. In million
Losses from trading business	12.8
Losses from speculation business	9.6
Capital losses (incurred in 20X2)	2.0

Under the Income Tax Ordinance, 2001 and Rules made thereunder, compute JC's taxable income / (loss) and the amount of loss to be carried forward, if any, for the tax year 20X8.

(06)

(Q.3 (c) September 2018)

ICAP PAST PAPER SOLUTIONS

Answer-1

His total income will be calculated as follows

Business income	
Current year	199,237
b/f business loss	(101,356)
Total Income	97,881

Capital loss cannot be adjusted against business profits so it will be carried forward in normal way till TY 2010.

Answer-2

A person can set off a loss under a head of income against any other head for the year except income under the head salary. However the loss under the head capital gain and speculation business in the current year cannot be set off against any other head.[S.56(1)]

If there is a loss under the head "Income from Business" (non-speculative business) and a loss under another head, the priority will be given to another head. [S.56(3)]

Answer-3

Section 56, 57, 58 and 59 in short form.

Answer-4

If the expenditures exceed the total foreign source income under a head of income, the foreign loss shall be carried forward and will be adjusted against future income under the same head upto 6 tax years next following the tax year in which the loss occurred. [S.104(2)]

The loss of the earliest tax year shall be set off first.

For apportionment of deduction (as per S. 67) —

(a) income from speculation business is a separate head of income; and

(b) foreign source income and Pakistan source income shall be separate heads.

Answer-5

i)

Particulars		Rs.
Income from speculation business		10,000
Capital gains on disposal of shares of private limited companies		20,000
		30,000
Less: Loss under the head IFOS (20,000+30,000)		(50,000)
Taxable income		-

ii) Only the dividend income is chargeable to tax and he is not required to pay any tax on it as tax deducted will be treated as final discharge of his tax liability.

iii)

• Adjusted against any other head of income – IFOS		30,000
• Remaining (30,000-50,000) 20,000 is dead. Carried forward for a maximum of six years, loss from business excluding depreciation to be carried forward till next 6 years	(410,00-290,000)	120,000
• Carried forward for indefinite period, loss due to depreciation		290,000

Answer-6

Definition Sec. 19(2)

Set off

The loss arising from speculation business in the current year cannot be set off against any other head.

Carry forward Sec. 58

Answer-7

A loss arising on the disposal of following assets will not be recognized: [S.38(5)]

(a) A painting, sculpture, drawing or other work of art;
(b) jewellery;
(c) a rare manuscript, folio or book;
(d) a postage stamp or first day cover;
(e) a coin or medallion; or an antique.

Answer-8

Set off

Where a person sustains a loss for any tax year under the head income from business, the person can set off this loss against the person's income, if any, chargeable to tax under any other head of income for the year except salary. The loss arising from capital gain in the current year cannot be set off against any other head. [S.56(1)]

Carry forward

Section 57 and 59

Answer-9

Pakistan source income				2,500,000
Speculation - FSI			500,000	
Less: b/f Loss			(250,000)	250,000
Capital gain - FSI			750,000	
Less: b/f Loss			(1,500,000)	-
Other source - FSI				1,250,000
Taxable income				4,000,000
Tax liability	(370,000 + 25% x 1,000,000)			620,000
Less: Foreign tax credit Speculation (lower of:)				
- Actual		125,000		
- Average rate	(620,000/4,000,000 x 250,000)	38,750		(38,750)
Less: Foreign tax credit Other Source (lower of:)				
- Actual		187,500		
- Average rate	(620,000/4,000,000 x 1,250,000)	193,750		(187,500)
Tax payable to Government				393,750
c/f non-speculation - FSI				1,000,000
c/f capital gain - FSI	(1,500,000 - 750,000)			750,000

- Foreign tax credit which is unadjusted during last year cannot be carried forward so Rs. 50,000 is ignored. [s.103(6)]

Answer-10

Foreign loss arises if the expenditures exceeds the total foreign source income for a tax year under a head of income.

Provisions relating to set off and carry forward of foreign losses

The foreign loss shall be carried forward to the following tax year and set off against the foreign source income under that head in that year, and so on, but no foreign loss shall be carried forward to more than 6 tax years immediately following the tax year in which the loss occurred. [S.104(2)]

Where a taxpayer has a foreign loss carried forward for more than one tax year, the loss for the earliest year shall be set off first.

Answer-11

Mr. Aslam
Income and tax there on
TY 2015

			Rs. in million
Income from business-Pakistan Source (LHR)	(W-1)		41
Income from business-Foreign Source	(W-3)	13	
Less: Brought forward business loss		(55)	-
Income from capital gain – Foreign source	(27+3)	30	
Less: Brought forward business loss		(6)	24
Taxable income			65
Tax liability (1,220,000 + 35% x 59,000,000)			21.87
Less: Foreign tax credit on capital gain income (lower of)			
- Actual Foreign tax paid = 3			
- Pakistani tax paid = 21.87/65 x 24 = 8.08			(3)
Less: Advance tax paid for Pakistan source business income			(10)
Tax payable to/refundable from Government			(8.87)

- c/f business loss of Rs. 42 (13 - 55) million to next year.

Note: As there is foreign source business loss, so no tax credit will be allowed of Rs. 5 million and Rs. 3 million paid in foreign country.

(W-1) Income from business – LHR

Income from business – as per question	29
Add: Expense wrongly charged	
- Salaries	5
- Rent expense	7
	41

(W-2) Income from business – BER

Income/(loss) from business – as per question	(15)
Less: Expenses not charged	
- Salaries	(5)
- Rent expense	(7)
	(27)

(W-3) Foreign source income from business

PAR		40
BER	(W-2)	(27)
		13

Answer-12

Lone Traders
Taxable income/(Loss)
Tax Year 2016

Rs. in 000

Income from business non-speculation			
Sale before discount	(bal.)	13,680	
Less: Discount		(680)	
Sales after discount		13,000	
Less: Cost of sales	(bal.)	(9,580)	
Gross profit	(13,680/100 x 25)	3,420	
Less: Contribution to research institute		(600)	
Less: Admin and selling expense	$\frac{(2,500 - 45)}{13,680 + 9,120} \times 13,680$	(1,473)	
		1,347	
Less: Trading business loss		(550)	797
Income from business speculation			
Sales	(Rs. 18.240 x 500 metric ton)	9,120	
Less: Cost	(Rs. 15.800 x 500 metric ton)	(7,900)	
		1,220	
Less: Expenditure on above transaction		(25)	
Less: Admin and selling expense	$\frac{(2,500 - 45)}{13,680 + 9,120} \times 9,120$	(982)	
		213	
Less: b/f speculation loss		(300)	-
Taxable income			797
c/f business loss – speculation	(300 – 213)		87
c/f Capital loss			250

Answer-13

Mehreen
Computation of taxable income and income tax liability
For the tax year 2016

Pakistan source income				Rs.
Salary Income	(300,000 x 10)			3,000,000
Foreign source income				
Speculation - Foreign Source Income			600,000	
Less: b/f Loss			(380,000)	220,000
Non-Speculation – Foreign Source Income				1,480,000
Capital gain - Foreign Source Income			950,000	
Less: b/f Loss			(1,800,000)	-
Taxable income				4,700,000
Tax liability	(620,000 + 30% x 700,000)			830,000
Less: Foreign tax credit Speculation (lower of:)				
. Actual foreign tax		110,000		
. Pakistan tax	(830,000 /4,700,000 x 220,000)	38,851		(38,851)
Less: Foreign tax credit non-Speculation (lower of:)				
. Actual foreign tax		187,600		
. Pakistan tax	(830,000 /4,700,000 x 1,480,000)	261,362		(187,600)
Total tax liability				603,549
Less: Tax deducted at source (40,000 x 10)				(400,000)
Tax payable to/refundable from Government				**203,549**
c/f Other source- Foreign Source Income				1,500,000
c/f capital gain - Foreign Source Income	(1,800,000 - 950,000)			850,000

Notes:

1. Salary income of Rs. 1,200,000 per month from AM is not taxable. As per section 51(2) of ITO 2001, where a citizen of Pakistan leaves Pakistan during tax year and remains abroad during a tax year then salary income earned outside Pakistan during that tax year shall be exempt from tax.
2. Foreign tax credit which is unadjusted cannot be refunded, carried back to preceding year or carried forward to following year.

Answer-14

(i)

Set off of business losses [Sec. 56]

A person can set off business loss against any other head for the year except income under the head salary.

A loss which is not set off, cannot be carried forward to next year. However loss under Income from business non speculation can be carried forward.

If there is a loss under the head "Income from Business" (non-speculative business) and a loss under another head, the priority will be given to another head.

Carry forward of business losses [Sec. 57]

(1), (2) If loss in a tax year under "Income from Business" (non-speculation) is not set off in the current tax year, then unadjusted loss shall be carried forward against future business income (non-speculation) upto 6 tax years next following the tax year in which the loss occurred.

(3) The loss of the earliest tax year shall be set off first.

(4) The loss due to depreciation, amortisation and initial allowance deductions (allowed under sections 22, 23, 23A, 23B and 24) that has not been set off, it shall be set off against 50% of the income from business (after setting off

loss under sub-section (1)), in the following tax year and so on until completely set off.
However depreciation, amortisation and initial allowance deductions shall be 100% set off in following year and so on if the taxable income for the year is less than Rs. 10 million.
(5) The deductions relating to deprecation, initial allowance and amortization shall be adjusted at last.

(ii)
Set off of speculation business losses [Sec. 56]
Loss of speculation business in current year cannot be set off against any other head. Loss under Income from business – speculation can be carried forward.

Carry forward of speculation business losses [Sec. 58]
(1) Loss under the head speculation business for the current tax year shall be set off against any other speculation business for the current year.
(2) If the loss is not wholly set off, the unadjusted loss shall be carried forward against future speculation business income upto 6 tax years next following the tax year in which the loss occurred. The loss of the earliest tax year shall be set off first.

Answer-15

Jamil and Company
Taxable income/(Loss)
Tax Year 20X8

		.......Rs. in Million.......	
Income from Trading business			
Sale		400	
Less: Cost of sales	**(bal.)**	(380)	
Gross profit		20	
Less: Admin and General expenses	(7.2 - 0.4) x 400 / 600	(4.53)	
Net Profit		15.47	
Less: b/f speculation loss		(12.8)	2.67
Income from business-speculation			
Sale		200	
Less: Cost of sales	**(bal.)**	(190)	
Gross profit		10	
Less: Admin and General expenses	(7.2 - 0.4) x 200 / 600	(2.27)	
Net Profit		7.73	
Less: b/f speculation loss		(9.6)	-
Taxable income			2.67
c/f business loss – speculation	(9.6 - 7.73)		1.87

Capital loss of Rs. 2 million cannot be carried forward to next year as the period of six tax years expired in tax year 20X8

LECTURE NOTES

Example 1

		TY2019
Income From Salary		200
Income From Other Source		(40)

Solution

TY 2019

Income From Salary		200
Taxable Income		200
Income From Other Source Loss Dead = 40		

Example 2

		TY2019
Income From Business	(Non-speculation)	300
Income From Other Source		(40)

Solution

TY 2019

Income From Business	(Non-speculation)	300
Less: Income From Other Source		(40)
Taxable Income		260

Example 3

		TY2019
Income From Salary		50
Income From Business	(Non-speculation)	90
Income From Other Source		(30)

Solution

TY 2019

Income From Salary			50
Income From Business		90	
Less: Income From Other Source		(30)	60
Taxable Income			110

Example 4

	TY2019
Income From Other Source	90
Income From Capital Gain	(55)

Solution

TY 2019

Income From Other Source	90
Taxable Income	90
c/f Income From Capital Gain Loss	55

Example 5

		TY2019
Income From Business	(non-speculation)	200
Income From Business	(speculation)	(60)

Solution

TY 2019

Income From Business	(non-speculation)	200
Taxable Income		200
c/f Income From Business Loss (speculation)		60

Example 6

		TY2019
Income From Salary		400
Income From Business	(Non-speculation)	700
Income From Capital Gain		(250)
Income From Other Source		(120)

Solution

TY 2019

Income From Salary			400
Income From Business	(Non-speculation)	700	
Less: Income From Other Source		(120)	580
Taxable Income			980
c/f Income From Capital Gain Loss			250

Example 7

	2012	2013
Income From Salary	50	100
Income From Other Source	30	200
Income From Capital Gain	(70)	20

Solution

TY 2012

Income From Salary		50
Income From Other Source		30
Taxable Income		80
c/f Income From Capital Gain Loss		70

TY 2013

Income From Salary		100
Income From Other Source		200
Income From Capital Gain	20	
Less: b/f loss from Capital Gain	(70)	0
Taxable Income		300
c/f Income From Capital Gain loss		50

Example 8

		2012	2013
Income From Other Source		30	200
Income from Business	(Non-speculation)	(70)	20

Solution

TY 2012

Income From Other Source Income	30
Less: Income from business (Non-speculation)	(70)
Taxable Income	0
c/f Income from business loss (Non-speculation)	40

TY 2013

Income From Other Source		200
Income from business (Non-speculation)	20	
Les: b/f Income from Business (Non-speculation)	(40)	0
		200
c/f Income From Business loss (Non-speculation)		20

Example-9

	TY2011
Income From Salary	70
Income From Business (Non-speculation)	90
Income From Business (speculation)	(60)
Income From Other Source	(50)
Income from capital gain	(30)

Calculate the taxable income in TY2011

Solution

TY 2011

Income From Salary		70
Income From Business (Non-speculation)	90	
Less: Income From Other Source	(50)	40
Taxable Income		110

c/f Losses:

Income from business (speculation)	60
Income from capital gain	30

Example-10

Father has sustained loss in TY2010	(30)
Father passed away and business was transferred to son in TY 2011	
Son has earned profit in TY2011	40

Calculate the taxable income of son in TY2011

Solution

TY 2011

Profit	40
b/f loss	(30)
Taxable Income	10

Example-11

Shahid Afridi has sustained loss in business in TY2010	(30)
Shahid Afridi sold his business to Wasim Akram in TY 2011	
Wasim Akram earned profit in TY2011	40

Calculate the taxable income of Wasim Akram in TY2011

Solution

TY 2011

Taxable income	40

Example-12

	TY2010
Sales	70
Less: Expenses	(90)
Less: Tax Depreciation	(30)
Loss	(50)

Solution

TY 2010

Loss before depreciation (−50 + 30) – To be c/f for 6 years	(20)
Tax depreciation (c/f till completely set off)	(30)

Example-13

Continuing from example-12 following is the data for next tax year:

	TY2011
Sales	150
Less: Expenses	(40)
Less: Tax Depreciation	(75)
Profit	35

Solution

TY 2011

Profit before depreciation (+35 + 75)	110
Less: b/f loss before depreciation	(20)
	90
Less: b/f depreciation	(30)
	60
Less: current year depreciation	(75)
Taxable income	0
c/f depreciation (75 – 60)	15

RETURNS, ASSESMENTS AND APPEALS

15

1. Return of income [Sec. 114.]
2. Business bank account [Sec. 114A]
3. Persons not required to furnish a return of income [Sec. 115]
4. Wealth statement [Sec. 116]
5. Foreign income and assets statement [S. 116A]
6. Notice of discontinued business [Sec. 117]
7. Method of furnishing returns and other documents [Sec. 118]
8. Extension of time for furnishing returns and other documents [Sec. 119]
9. Assessments [Sec. 120]
10. Best judgment assessment [Sec. 121]
11. Amendment of assessments [Sec. 122]
12. Revision by the Commissioner [Sec. 122A]
13. Revision by the Chief Commissioner [Sec. 122B]
14. Agreed assessment in certain cases [Sec 122D]
15. Provisional assessment in certain cases [Sec. 123]
16. Assessment in relation to disputed property [Sec. 125]
17. Evidence of assessment [Sec. 126]
18. Appeal to the Commissioner (Appeals) [Sec. 127]
19. Procedure in appeal [Sec. 128]
20. Decision in appeal [Sec. 129]
21. Appointment of the Appellate Tribunal [Sec. 130]
22. Appeal to the Appellate Tribunal [Sec. 131]
23. Disposal of appeals by the Appellate Tribunal [Sec. 132]
24. Reference to High Court [Sec. 133]
25. Alternative Dispute Resolution [Sec. 134A]
26. Rules for formation and working of ADRC
27. Burden of proof [Sec. 136]
28. Assessment giving effect to an order [Sec. 124]
29. Powers of tax authorities to modify orders, etc. [Sec. 124A]

CHAPTER 15
RETURNS, ASSESMENTS AND APPEALS

Income tax authorities [Sec. 207]

There shall be following Income Tax authorities:-

(a) Federal Board of Revenue (Board);
(b) Chief Commissioner Inland Revenue;
(c) Commissioner Inland Revenue;
(d) Commissioner Inland Revenue (Appeals);
(e) Officer of Inland Revenue
  (i) Additional Commissioner Inland Revenue;
  (ii) Deputy Commissioner Inland Revenue;
  (iii) Assistant Commissioner Inland Revenue;

Return of income [Sec. 114]

Who is required to file a return of income

(1) The following persons are required to furnish a return of income for a tax year:

(a) every company;
(ab) every person (other than a company) whose taxable income for the year exceeds Rs. 400,000;
(ac) non-profit organization;
(ae) every person whose income for the year is subject to final taxation
(b) A person who,-
  (i) has been charged to tax in any of the 2 preceding tax years;
  (ii) claims a loss carried forward;
  (iii) - owns immovable property with a land area of 500 square yards or more or
  - owns any flat
  located in:
    - areas falling in the municipal limits; or
    - areas in a Cantonment; or
    - the Islamabad Capital Territory;
  (iv) owns immoveable property in rating area with a land area of 500 square yards or more;
  (v) owns a flat in a rating area having covered area of 2,000 square feet or more;
  (vi) owns a motor vehicle having engine capacity above 1,000 CC;
  (vii) has obtained National Tax Number: or
  (viii) holds commercial or industrial connection of electricity if annual bill exceeds Rs.500,000.
  (ix) is a resident person registered with any:
    - Chamber of Commerce and Industry or
    - trade or business association or
    - market committee or
    - professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan; or
  (x) is a resident individual required to file foreign income and assets statement (under section 116A).
(c) persons or classes of persons notified by the Board (with the approval of the Minister in-charge)

(1A) Every individual whose income from business exceeds Rs. 300,000 but does not exceed Rs. 400,000 in a tax year is also required to furnish return of income.

(2) Requirements for filing a return/When a return is considered as complete

A return of income:

(a) shall be in the prescribed form and shall contain prescribed annexures and statements
The Board may prescribe different returns for different classes of income or persons (including persons subject to final taxation).
(b) shall state all the relevant particulars including a declaration of the records kept;
(c) shall be signed by an individual and in other cases it shall be signed by person's representative.

(d) shall contain evidence of payment of tax as per return.
(e) shall contain a wealth statement (u/s 116); and
(f) shall be accompanied with a foreign income and assets statement (as required under section 116A).

(2A) Is return filed electronically considered as correct under the law
A return filed electronically on web or any computer readable media will also be treated as return. The Board may make rules for:
a) determining eligibility of the data of returns
b) e-intermediaries who will digitise the data of returns and transmit it to the Income Tax Department under their digital signatures and
c) other matters relating to electronic filing.

Method of filing of Tax Return is discussed in S. 114 (2),(2A),(7)

(3) Can Commissioner demand a return of income from a person for a period of less than 12 months
The Commissioner may give notice to a person to furnish a return for a period of less than 12 months, if–
(a) the person has died;
(b) the person has become bankrupt or gone into liquidation;
(c) the person is about to leave Pakistan permanently;
(d) the Commissioner otherwise considers it appropriate.
The return will be furnished by the due date specified in the notice.

(4) Can Commissioner demand a return of income from a person
If a person has not furnished return, Commissioner may, by notice, require him to file it within 30 days of date of service of notice. Commissioner may allow a longer period or shorter period.

(5) For how many last completed tax years Commissioner can demand a return of income from a person
The above notice may be issued for any of **last 5 completed tax years or assessment years:**
Further if a person has not filed return for any of the last 5 completed tax years, notice may be issued for one or more of the last 10 completed tax years.
The time limit provided above shall not apply if Commissioner is satisfied that a person who failed to furnish return has foreign income or owns foreign assets.

Q.	On October 17, 2012 Commissioner issued notice to Mr. B to file his return of income for the TY 2007. Is the commissioner justified in issuing the notice?
A.	Commissioner is not justified in issuing the notice as the above mentioned notice may be issued in respect of any of the last 5 completed tax years. In the given question, commissioner may issue a notice for tax year 2008, 2009, 2010, 2011 or 2012.

Power of Commissioner to call for return is discussed in S. 114 (3),(4),(5)

(6) Can return once furnished be revised subsequently and what are the conditions attached thereto
If a person discovers any omission or wrong statement in a return, he may revise it by fulfilling the following conditions:
(a) it is accompanied by the revised accounts or revised audited accounts. However Commissioner may waive this condition if he is satisfied that filing of these accounts is not necessary.
(b) the taxpayer files the reason for revision, in writing, signed by him,
(ba) it is accompanied by approval of the Commissioner, however this condition shall not apply if revised return is filed within 60 days of filing of return;
Further where the Commissioner has not passed an order of approval in writing, for revision of return, with in 60 days from the date revision was required, it will be assumed that Commissioner has given the approval.
Further no approval of the Commissioner is required if taxable income declared is more than or the loss declared is less than determined u/s 120. and
(c)
- taxable income in revised return is greater than the income determined in previous order issued by tax or appellate authority (u/s 121,122,122A,129,132,or 133)and
- loss in revised return is less than loss determined in previous order issued by tax or appellate authority (u/s 121,122,122A,129,132,or 133).

If any of above condition is not fulfilled, the return shall be considered as an invalid.
The mode and manner for seeking the revision shall be prescribed by the Board.

The commissioner shall grant approval in case of a bonafide omission or wrong statement.

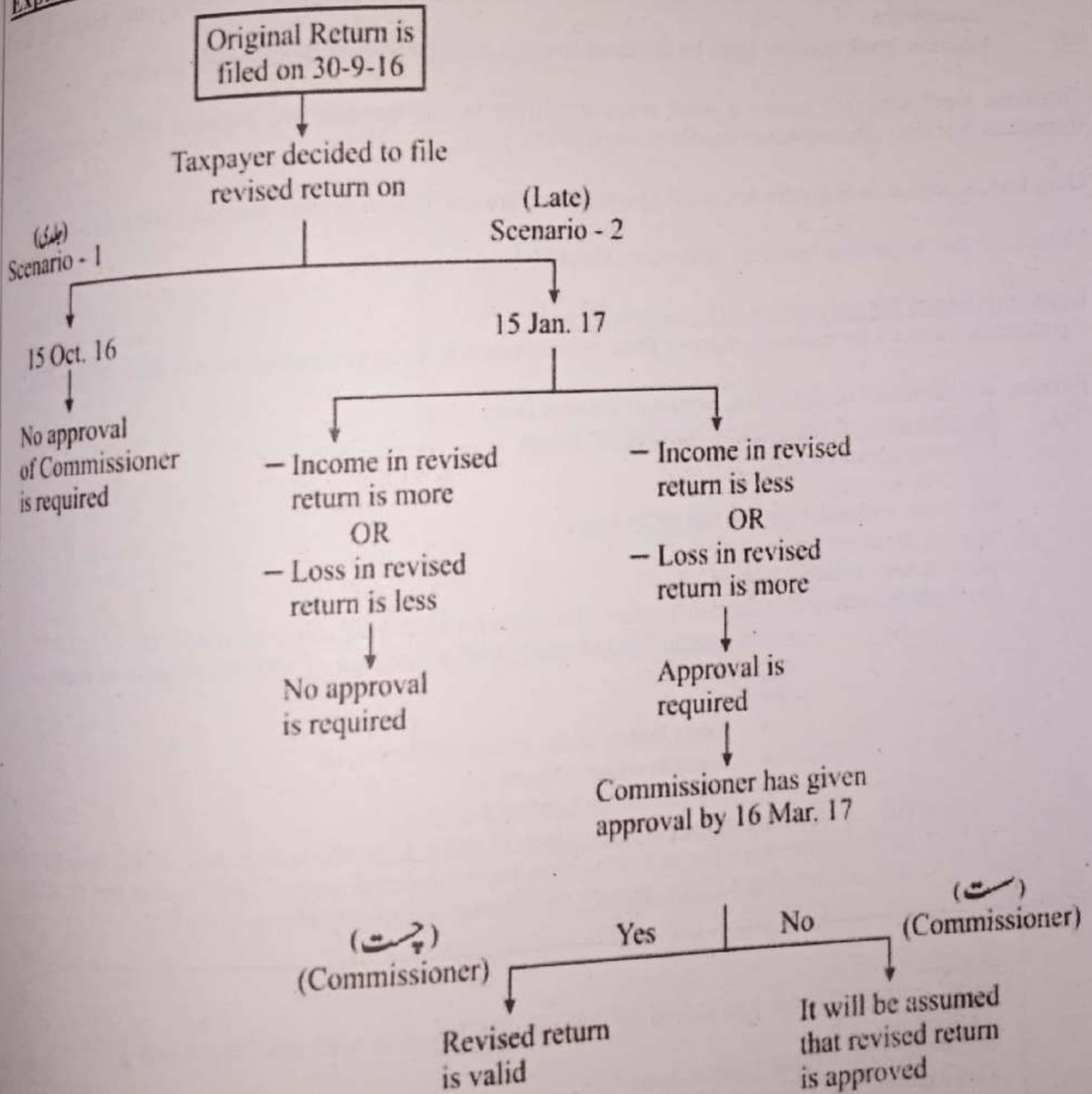
Question

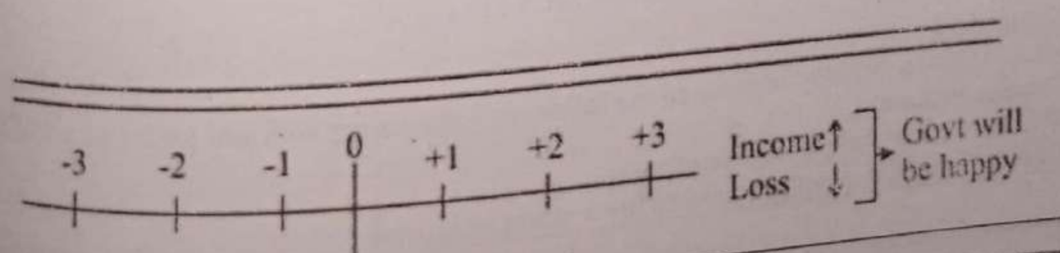
Mr. Ahmad filed his return for tax year 2011 on 30th September 2011. He filed a revised return on 1st January 2013. What benefit will be available to tax payer if the commissioner has not passed an order of approval within 60days.

Answer

Where the Commissioner has not passed an order of approval in writing, for revision of return, within 60 days from the date revision was required, it will be assumed that Commissioner has given the approval.

Explanation of S.114(6)





(6A) How much amount is required to be paid when filing a revised return (Procedure of filing revised return)
Following amounts will be paid at the time of filing a revised return:

Time of furnishing revised return	Amount required to be deposited
Before receipt of notice of audit	Tax short paid/evaded + default surcharge + No penalty
During audit and before receipt of show cause notice for amendment of assessment	Tax pointed out by Commissioner + default surcharge +25 % of penalty
After issuance of show cause notice for amendment of assessment	Tax evaded + default surcharge +50% penalty [If this amount is paid the show cause notice shall have no effect]

(7) If a person files a return it will be assumed that he himself has signed it, unless he proves otherwise.

Business bank account [Sec. 114A]

(1) Every taxpayer shall declare to the Commissioner the bank account utilized by the taxpayer for business transactions.

(2) Business bank account shall be declared through original or modified registration form.

"Business bank account" means a bank account utilized by the taxpayer for business transaction declared to the Commissioner through original or modified registration form.

Only businesses i.e. sole proprietor, AOP or companies are required to declare through FBR e-portal.

Note: Last date to declare business bank accounts is 30 September 2021

Legal implication for not declaring Business bank account
An expense incurred for business purpose shall be inadmissible while computing income from business u/s 21.

Persons not required to furnish a return of income [Sec. 115]

(3) Persons granted immunity from filing of return
Following persons:
(a) A widow;
(b) an orphan below the age of 25 years;
(c) a disabled person; or
(d) a non- resident person.
shall not be required to furnish a return of income for a tax year solely by reason of:
(i) - owning immovable property with a land area of 500 square yards or more or
- owning any flat
located in:
- areas falling in the municipal limits; or
- areas in a Cantonment; or
- the Islamabad Capital Territory;

(ii) owning immoveable property in rating area with a land area of 500 square yards or more;
(iii) owning a flat in a rating area having covered area of 2,000 square feet or more;
(iv) owning a motor vehicle having engine capacity above 1,000 CC;

Example-1
Miss. Salma a Widow has shared the following information with you for tax year 2021:

Taxable income	Rs. 700,000
She owns a car having engine capacity	1,200 cc

Conclusion: She is req. to file return as per S.114 (1) (ab)

Example-2
Miss. Tahira a Widow has shared the following information with you for tax year 2021:

Taxable income	Rs. 200,000
She owns a car having engine capacity	1,300 cc

Conclusion: She is not required to file a return of income.

Example-3

Miss. Iram a Widow has shared the following information with you for tax year 2021:

Taxable income	Rs. 280,000

She is a resident chartered accountant.

Conclusion: She is required to file return as per S.114(1)(b) (ix)

Wealth statement [Sec. 116]

(1) Can Commissioner demand through notice a wealth statement from any person and what are the contents of wealth statement

The Commissioner may by notice require any individual to file a wealth statement. It will contain following particulars –

(a) the total assets and liabilities of the person, his spouse, minor children and other dependents on the date specified in the notice;

(b) assets transferred by the person to any other person during the period specified in the notice and the consideration for the transfer;

(c) the detail of expenditures incurred by the person, his spouse, minor children and other dependents during the period specified in the notice; and

(d) wealth reconciliation statement.

It will be furnished by the due date specified in the notice. [S. 118(4)]

(2) On which individual it is mandatory to file a wealth statement

Every resident individual shall furnish a wealth statement and wealth reconciliation statement along with the return.

It will be furnished by the due date for furnishing the return. [S. 118(4)]

Every member of an AOP shall furnish. wealth statement and wealth reconciliation statement along with the return of AOP.

(3) Can wealth statement once furnished be revised

If a person discovers any omission or wrong statement in wealth statement, he can revise it by intimation to the Commissioner. Revision can be made before the receipt of notice for amendment in assessment [S. 122(9)]. Revised wealth reconciliation and reasons for revision will also be filed.

If Commissioner is of opinion that revision is made for correcting a bona fide omission or wrong statement, he will declare such revision as valid (after providing an opportunity of being heard).

***Explanation** - Wealth statement cannot be revised after the expiry of 5 years from the due date of filing of return.*

Q.	Mr. Sozo has hired you as a tax consultant and wants to know the time limit for revision of wealth statement because he has found an error in it. Advise Mr. Sozo.
A.	Mr. Sozo may furnish a revised wealth statement at any time before amendment of assessment.

Preparation of wealth statement

It is prepared as follows:

- It is a balance sheet of an individual in which personal assets and liabilities are shown on any given date. It gives detail of personal assets and liabilities only. It does not reflect business assets and liabilities rather it shows net equity of business. A wealth statement is complete if there is reconciliation statement showing change in wealth.
- Cash and bank reconciliation statement is prepared from the cash & bank account. We will start from opening balance of cash & bank and after adding cash inflows and subtracting cash outflows, the remaining amount is closing balances of cash & bank account. This closing balance is included in the assets of the wealth statement. If expenditure side is not explained through the cash receipt side, then the difference is un-explained investment and is taxable.
- After taking cash & bank reconciliation figure, wealth statement for the current year is complete and a person can easily calculate the figure of increase/decrease in the net wealth by subtracting the last year's net wealth figure from the current year's net wealth figure.

Note: Assets and liabilities are recorded at historical cost and not at market value.

Example-1:

Mr. Nadeem has filed following wealth statement as on 30.06.2015

Plot at DHA, Lahore	3,500,000
Capital in ABC & Co	2,500,000
Jewelry	500,000
Shares in XYZ (Pvt.) Ltd	1,000,000
Cash	1,500,000
Bank	2,000,000
TOTAL	**11,000,000**
Personal Loan	1,000,000
TOTAL	**10,000,000**

During the year following information is provided:

- He earned salary income of Rs. 1,200,000 and paid tax Rs. 100,000.
- He sold share of Rs. 200,000 for a consideration of Rs. 350,000.
- He settled his personal loan of Rs. 500,000.
- His household expenses aggregates to Rs. 850,000.
- He has given gift of Rs. 400,000 to his brother Kamran through crossed cheque.
- He has earned profit on ABC & Co of Rs. 450,000. His drawings from the firm during the year was Rs. 275,000. He paid tax of Rs. 40,000 on firm income.
- He purchased a new plot at EME society for total consideration Rs. 2,000,000 payable in 20 installments. During the year. He paid Rs. 700,000 in installments.
- On 30th June 2016, his bank balance was Rs. 475,000.

Required:

Prepare the wealth reconciliation statement and wealth statement for 2016.

Answer-1:

Mr. Nadeem
Wealth Statement
For Tax Year 2016

Assets:			Rs. in '000'
Plot at DHA			3,500
Capital in ABC (Note 1)	(2,500 + 450 - 275)		2,675
Advance for plot at EIVIE			700
Jewellery			500
Shares in XYZ	(1,000 - 200)		800
Cash	((W-1) 2,735 – 475)	2,260	
Bank		475	2,735
			10,910
Less Liabilities:			
Loan	(1,000 - 500)		(500)
Closing wealth			**10,410**

W-1:

Cash and bank	(1,500 + 2,000 + 1,200 - 100 + 350 - 500 - 850 - 400 + 275 - 40 - 700)	**2,735**

Mr. Nadeem
Wealth Reconciliation Statement
For Tax Year 2016

		Rs. in '000'
Opening Wealth		10,000
Add: Sources		
Salary Income		1,200
Gain on sale of shares	(350 - 200)	150
Profit on ABC & CO		450
		1,800

Scanned with CamScanner

Less:	Tax paid on salary	100
	Household expenses	850
	Gift to brother	400
	Tax on profit of ABC & Co.	40
		(1,390)
Total		10,410

Foreign income and assets statement [S. 116A]

(1) Every resident individual having:

- foreign income equal to or greater than 10,000 United States dollars or
- having foreign assets with a value equal to or greater than 100,000 United States dollars

shall furnish a foreign income and assets statement. It shall be in the prescribed form and verified in the prescribed manner. It will give particulars of:

(a) the person's total foreign assets and liabilities as on the last day of the tax year;

(b) any foreign assets transferred by the person to any other person during the tax year and the consideration received; and

(c) complete particulars of foreign income derived and the expenditure incurred during the tax year and that the expenditure wholly and necessarily for the purposes of deriving the said income.

(2) The Commissioner may by notice require any individual to furnish the foreign income and assets statement who (in the opinion of the Commissioner) was required to furnish it but who has failed to do so. It will be furnished by the date specified in the notice.

Notice of discontinued business [Sec. 117]

(1) A person discontinuing a business shall give Commissioner a notice within 15 days of the discontinuance.

(2) The person discontinuing a business shall, himself or on being required by the Commissioner by notice, furnish a return. The period of return will start from the 1st day of tax year (of discontinuance) and will end on the date of discontinuance. This period shall be treated as a separate tax year.

Q.	Mr. Freehit discontinued business on 28 February 2013. He is of the opinion not to file return of income because the business was not carried on for whole of the year. Advise him.
A.	Mr. Freehit should file a return of income for a period of eight month starting from 1 July 2012 and ending to 28 February 2013 and it will be treated as a separate tax year for him.

(3) What powers are available to the Commissioner in respect of a person who has not given the notice of discontinuance of business to Commissioner

If a taxpayer does not gives notice of discontinuance and the Commissioner has grounds to believe that:

- a business has been discontinued or
- taxpayer is likely to discontinue the business,

he may serve notice to furnish the return. Commissioner will notify the period for which return is required.

(4) What is the status of return furnished by a person who has discontinued his business

A return furnished here will be treated as deemed assessed.

Method of furnishing returns and other documents [Sec. 118]

(1)

- A return of income,
- a wealth statement
- a foreign income and assets statement

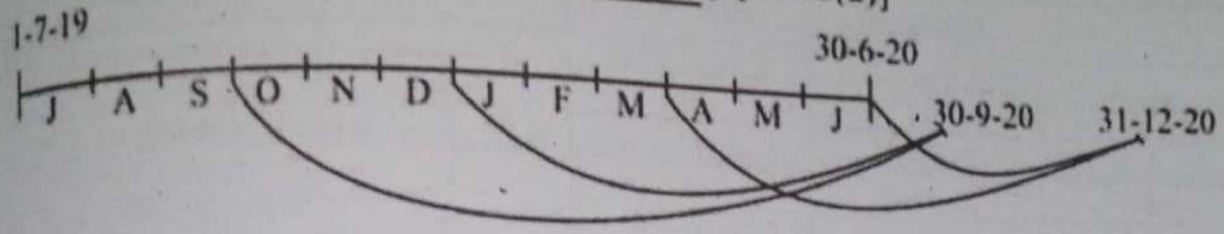
shall be furnished in the prescribed manner.

(2) **A company** will file its return of income as follows –

Tax year ends	Due date for filing
If the tax year ends between January 1st to June 30th	On or before December 31st next following the end of the tax year
If the tax year ends between July 1st to December 31st	On or before September 30th next following the end of the tax year

Explanation
Below is a diagram to explain the return filing date depending upon "tax year end" at different dates:

Return of income for Company [S.118(2)]



(2A) A person whose earns salary income will:

- file the return electronically along with the proof of deduction/payment of tax and
- file a wealth statement with return and
- a foreign income and assets statement

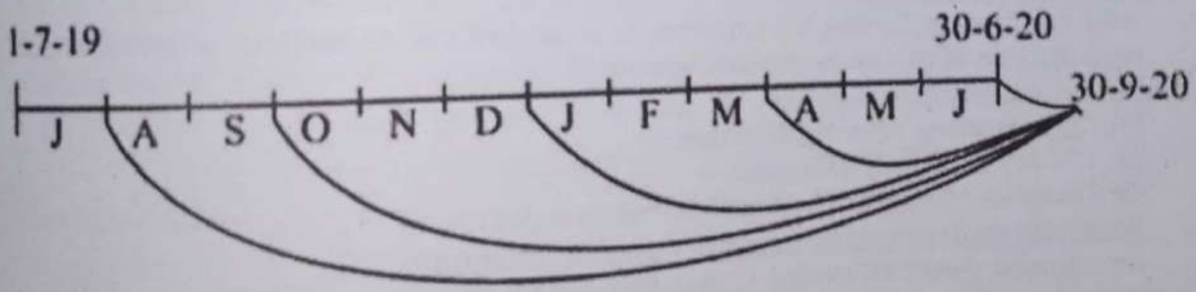
The Board may amend above condition or direct that the above condition will not apply for a tax year.

(3) Following is the schedule for remaining persons:

Document required to be furnished	Due date for filing
- Return required to be filed through e-portal in case of salaried individual - Return of income by an individual or AOP	On or before September 30th next following the end of the tax year

Explanation
Below is a diagram to explain the return filing date depending upon "tax year end" at different dates:

Return of income for Individual and AOP [S.118(3)]



Examples

Persons	Tax year ends	Document	Due date for filing (On or before)
Liberty company Ltd.	31-3-2013	Return of income	31-12-2013
Kaka company Ltd.	30-6-2013	Return of income	31-12-2013
Mr. Spaghetti	30-9-2012	Return of income	30-9-2013
Mr. Skull	30-6-2012	Electronic filing of return by salaried person	30-9-2012
You &Vee (Firm)	30-11-2012	Return of income	30-9-2013

(5) A return required to be furnished for discontinued business (under section 117) shall be furnished by the due date specified in the notice.

(6) Where a taxpayer is not borne on National Tax Number (NTN) Register and fails to file an application for NTN with return, such return shall not be treated as a return.

Self Test

Individual			Company		
Mr.	**Tax Year ends on**	**Return filing date**	**Company Name**	**Tax Year ends on**	**Return filing date**
A	30-06-13		X	30-06-13	
B	31-03-16		Y	31-03-16	
C	31-12-17		Z	31-12-17	
D	30-09-10		M	30-09-10	

Summary regarding provisions relating to filing of returns

Scenario	**Section reference**
Return of income by company	S. 118 (2)
Return of income by individual	S. 118 (3)
Return to be filed by a person who is discontinuing a business	S. 117 (2)
A person who has not furnished return and Commissioner gave him a notice to furnish return	S. 114 (4)

Extension of time for furnishing returns and other documents [Sec. 119]

(1) A person required to furnish –

(a) a return of income (u/s 114 or 117);

(b) a wealth statement (u/s 116),

may apply to the Commissioner for an extension of time.

(2) What is the deadline for getting extension in time for filing the documents mentioned in (1) above

The application for extension will be made by the due date of furnishing the above documents.

(3) What are circumstances under Commissioner can grant extension in time for filing the documents mentioned in (1) above

After receiving application if Commissioner is satisfied that the applicant is unable to furnish the above mentioned documents by the due date because of –

(a) absence from Pakistan;

(b) sickness or other misadventure; or

(c) any other reasonable cause,

the Commissioner may grant the applicant an extension of time.

(4) What is the maximum period for which extension can be granted

An extension should not exceed 15 days from the due date. In exceptional circumstances longer time may be granted.

Q.	The tax year of Mr. Wao ends on 31 May 2012. Mr. Wao remained in Africa due to an official assignment till 27-8-2012 and did not file his return of income electronically. On 30-9-2012, Mr. Wao applied to the commissioner for getting extension in filing of return of income electronically by 1 month. Decide whether the application is justified.
A.	Mr. Wao can get extension for filing return of income electronically by not more than 15 days from due date so his application will not be justified. He can get extension till 15-10-2012 only. In exceptional circumstances longer time may be granted.

(6) Where the Commissioner has not granted extension for furnishing return (under subsection (3) or subsection (4)), the Chief Commissioner may on application made by taxpayer grant extension or further extension upto 15 days. In exceptional circumstances longer time may be granted. If a person gets extension he will still be liable to pay the default surcharge.

Assessments

Assessments [Sec. 120]

Normal assessment

What is the status of complete return of income filed by taxpayer/ Normal assessment

(1) If the taxpayer has furnished a complete return of income (other than a revised return),-

(a) It will be considered that Commissioner has made an assessment of taxable income and tax due thereon; and

(b) return shall be considered as an assessment order issued by Commissioner on the day the return was furnished.

When return of income filed by taxpayer is treated to be complete

(2) A return shall be considered as complete if it fulfills the conditions mentioned in sub-section (2) of S.114.

(1A) Notwithstanding the provisions of sub-section (1), the **Commissioner may select a person for an audit** of his income tax affairs (u/s 177).

(2A) A return (furnished under sub-section (2) of section 114) shall be processed through automated system to arrive at correct amounts of total income, taxable income and tax by making adjustments for-

(a) any arithmetical error;

(b) any apparent incorrect claim,

(c) disallowance of any loss, deductible allowance or tax credit and

(d) disallowance of carry forward of loss:

Adjustments shall be made after issuing a system generated notice to the taxpayer.

The response of taxpayer shall be considered before making any adjustment. In case no response is received in 30 days of notice, adjustments shall be made.

If no adjustment is made in 6 month of filing of return, the amounts in the return (as declared by the taxpayer) shall be assumed to be adjusted and taxpayer shall be informed automatically through IRIS.

Note: Provisions of this sub-section (2A) shall apply from the date notified by FBR. However FBR has yet not notified any date. Resultantly, the concept of self-assessment is still applicable.

Assessment in case of incomplete return

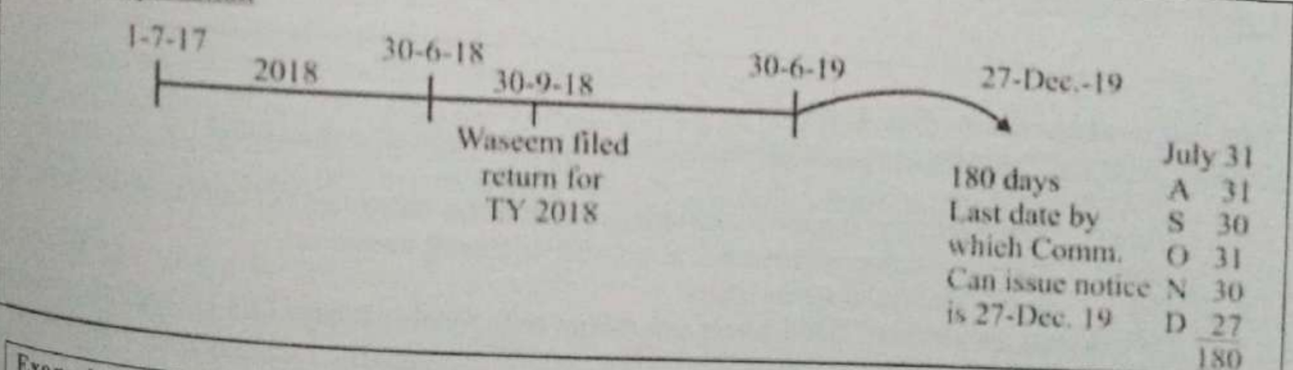
(3) Power available to Commissioner in case a taxpayer has filed an incomplete return of income

If return is incomplete, the Commissioner shall issue a notice to taxpayer informing deficiencies (other than incorrect tax on taxable income, or short payment of tax) and will order him to provide the missing information and particulars.

(6) Time limitation within which the Commissioner can issue notice to fill any deficiency in the return

The above notice can be issued within **180 days from the end of financial year** in which the return is furnished.

S.120(6) Explanation



Example:

Mr. Atif filed return on15th of September 2010. Till when Commissioner can issue notice to remove deficiencies?

Solution:

- As per sec. 120(6), such a notice can be issued with in 180 days of30th June, 2011.

(4) What is the status of return if the taxpayer does not comply with the notice issued by Commissioner

If tax payer does not comply with the notice, the return will be considered as invalid and it will be assumed that no return has been furnished.

(5) Status of return if the taxpayer does comply with the notice issued by Commissioner

If tax payer complies with notice in due time, the return shall be considered as complete on the day it was furnished.

(7) For the purposes of this section,

(a) "arithmetical error" includes any wrong or incorrect calculation of tax (including any minimum or final tax)

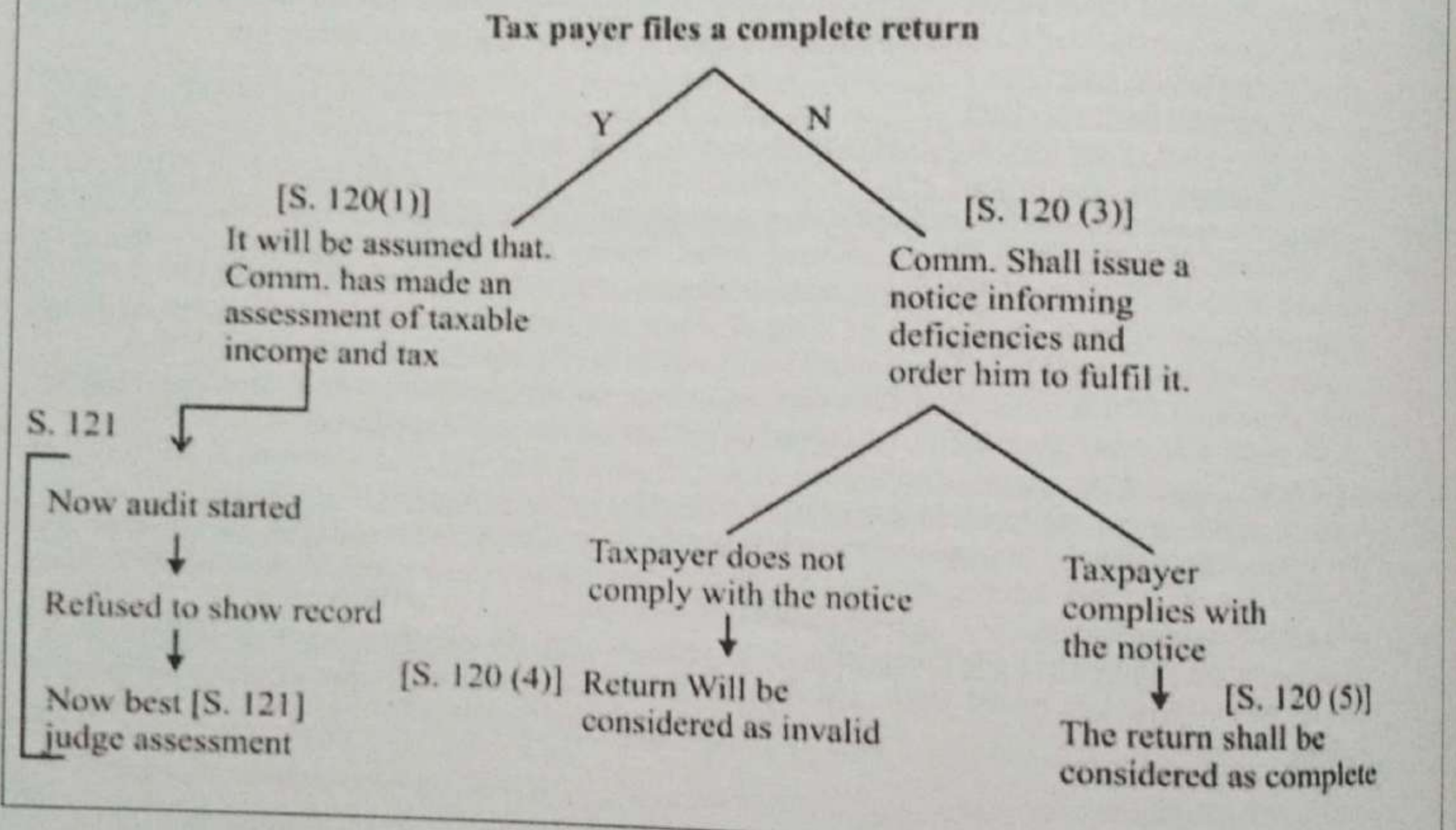
(b) "an incorrect claim apparent from return" is a claim, in the return:

(i) of an item, which is inconsistent with another entry of the same or other item in return;

(ii) of any tax payment which is not verified from the collection system; or

(iii) for a deduction, where deduction exceeds specified statutory limit (amount, percentage, ratio, fraction)

Explanation of Section 120 and 121



Best judgment assessment [Sec. 121]

(1) What are the circumstances under which best judgment assessment can be made

If a person fails to:

(ab) furnish return of income in response of notice under subsection (3) and (4) of section 114; or

(b) furnish a return as non-resident ship owner or aircraft owner; or

(c) furnish the wealth statement; or

(d) produce before Commissioner or a special audit panel appointed (u/s 177) or any person employed by a firm of chartered accountants, (u/s 177) accounts, or documents required for making assessment of income and tax

the Commissioner may, based on available information and exercising his best judgement, make an assessment of the income and tax. Now assumed assessment shall have no legal effect.

Examples of (ab) and (d) above

(ab) Saqlain Mushtaq earned Rs. 2,000,000 and has not filed return	→	As per S.114(4) Commissioner will issue him a notice to file return with in 30 days	→	Tax payer fails to furnish if even after receiving notice under S 14(4). Now Comm. will make best judgment assessment as per S.121.
(d) Inzamam has filed a return of income	→	As per S.120 (1) assumed assessment order is issued	→	Commissioner started audit and tax payer refused to show records. Now Commissioner will issue best judgment assessment order. Now assumed assessment as per S.120 (1) will have no effect.

(2) After making an assessment, the Commissioner shall issue the assessment order stating-
- (a) the taxable income;
- (b) the tax due;
- (c) the tax paid, if any; and
- (d) the time, place and manner of appealing the assessment order.

(3) What is the time limitation for issuing best judgment assessment

Best judgement assessment can be issued within **5 years after the end of the tax year** to which it relates.

Best judgment assessment relating to tax year ending 30-June-2009 can be made upto 30-June-2014.

Further where notice for furnishing a return of income (under subsection (4) of section 114) is issued for one or more of the last 10 completed tax years best judgement assessment order shall be issued within 2 years from the end of tax year in which notice for filing of return is issued.

Agar 2021 mian return mangi 10 saal ki (2011-2020) aur tax payer nay ab combine jama kara di aur us nay wealth statement jama nahi karwai to 30.6.23 tak us ki best judgment ki ja sakti hay.

Amendment of assessments [Sec. 122]

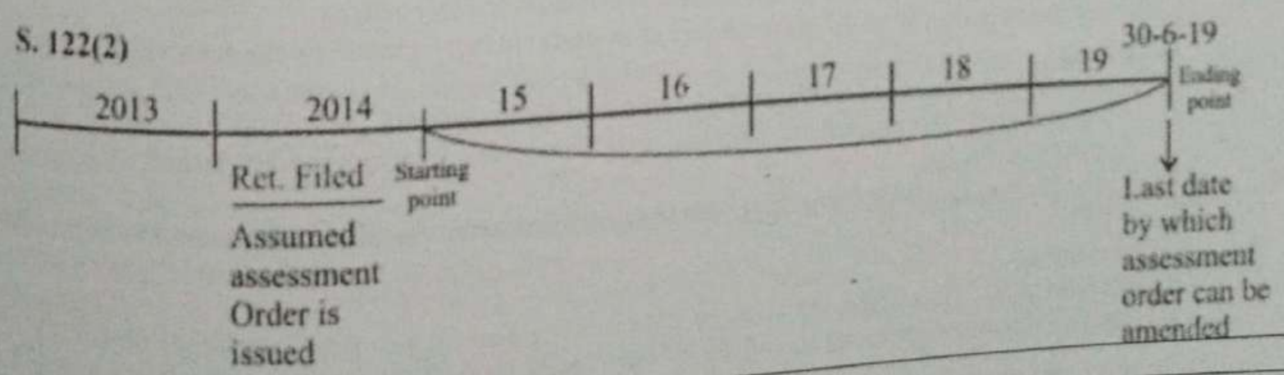
(1) Amendment of assessment order

The Commissioner may amend following assessment order:
- treated/assumed as issued (under section 120) or
- best judgment assessment (issued u/s 121),

by making such alterations/additions as he considers necessary.

(2) What is the time limitation for amending assessment order for the first time

An assessment order can be amended within **5 years from the end of the financial year** in which the Commissioner has issued or is treated to have issued the original assessment order.



Q. Mr. Tipu's tax year ends on June 30, 2010. He furnished his return of income on September 30,

2010. On 31 May 2016, Commissioner found that the income classified as other sources should have been classified as capital gain for TY 2010. Decide whether assessment order can be amended on 31 May 2016.

A. Yes, assessment order can be amended on 31 May 2016 because assessment order can be amended within 5 years from the end of the financial year in which the commissioner has issued or is treated as having issued the original assessment order. The last date for amending the order for the first time is 30 June 2016.

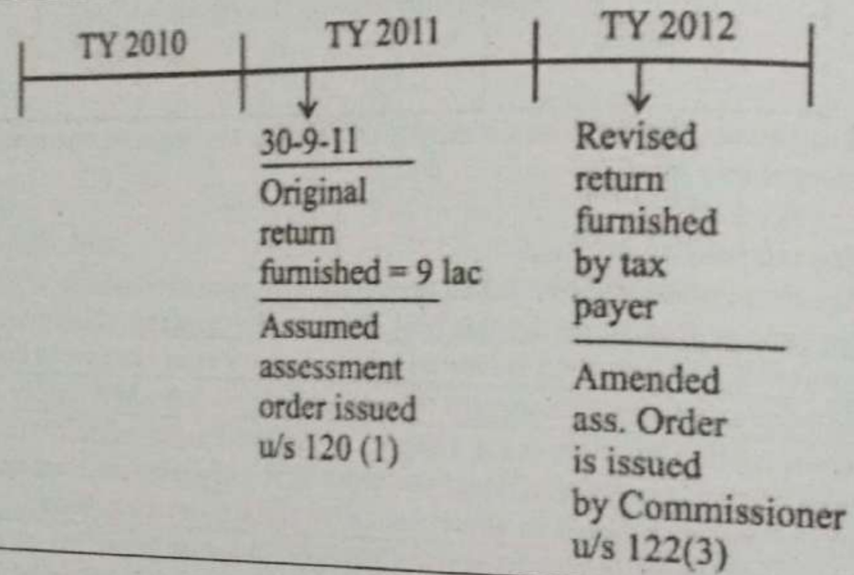
(3) What is the status of revised return filed by taxpayer

Where a taxpayer furnishes a revised return u/s 114 -

(a) It will be considered that the Commissioner has made an assessment of taxable income and tax as mentioned in the revised return; and

(b) the revised return shall be considered as an amended assessment order issued by the Commissioner on the day the revised return was furnished.

S. 122(3)



(4) Can amended assessment order be further amended, if yes for how many times and within which time limit?

If an assessment order has been amended under sub-section (1), (3) or (5A), Commissioner may further amend, as many times as may be necessary, the original assessment within the later of –

(a) **5 years from the end of the financial year** in which the Commissioner has issued or is treated as having issued the original assessment order; or

(b) **1 year from the end of the financial year** in which amendment was passed.

Example-1

Mr. Amir filed return of TY 2020 on 30-09-2020. The return filed by him is considered as assumed assessment order issued by tax authorities (It is called as original assessment order). He was selected for audit and the first amendment of assessment took place on March 2026. Identify the date by which 2nd Amendment of assessment can be made by tax authorities?

Solution-1

The second amendment of assessment can be made within later of:

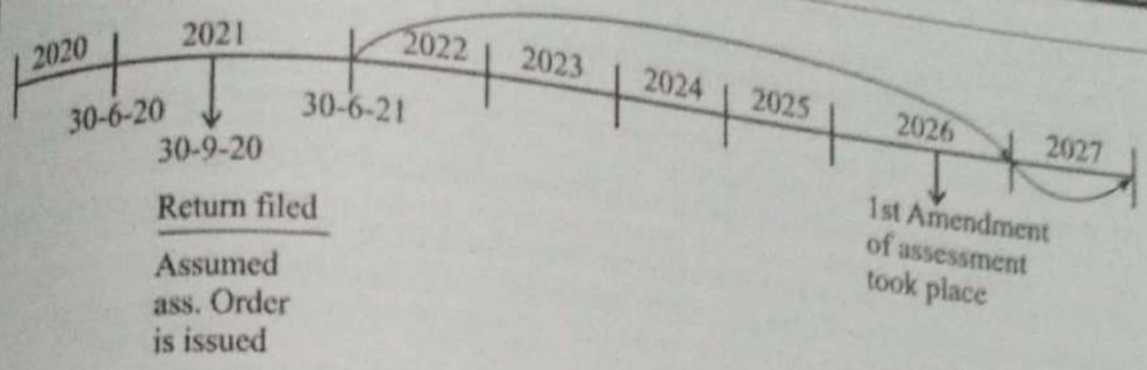
- 5 years from the end of the financial year in which commissioner has issued assumed assessment order (30-06-26)
- 1 year from the end of financial year in which first amendment of assessment has been made (30-06-27)

Conclusion:

Later date is 30th June 2027.

Therefore Commissioner can amend for 2nd time by 30 June 2027.

S. 122(4) Ex - 1 (in Diagram form)



Example-2

Mr. Umer filed return of TY 2016 on 30-09-2016. The return filed by him is considered as assumed assessment order issued by tax authorities (It is called as original assessment order). He was selected for audit and the first amendment of assessment took place on May 2019. Identify the date by which 2nd Amendment of assessment can be made by tax authorities?

Solution-2

The second amendment of assessment can be made within later of:

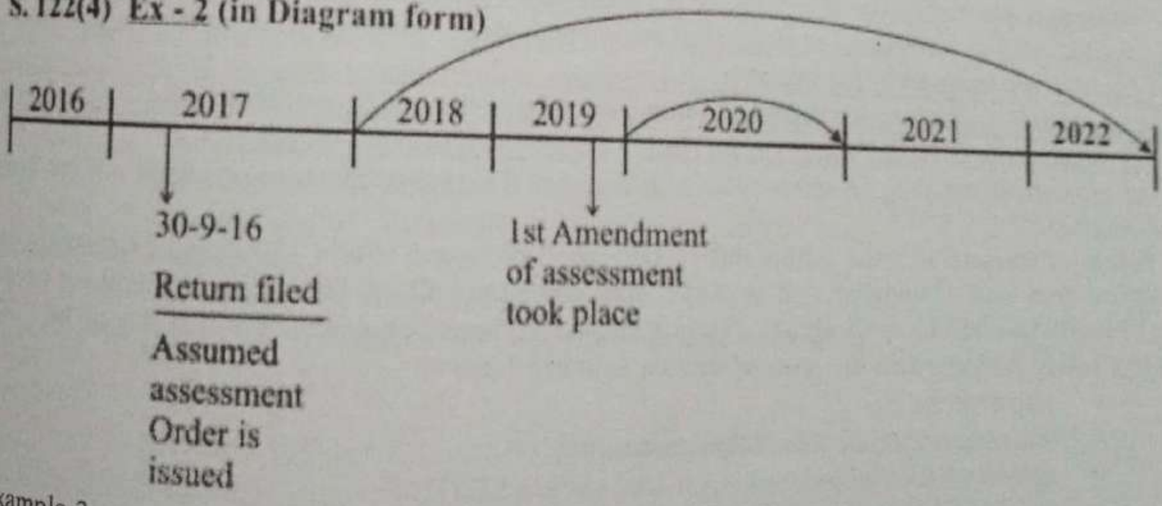
- 5 years from the end of the financial year in which Commissioner has issued assumed assessment order (30-06-22)
- 1 year from the end of financial year in which first amendment of assessment has been made (30-06-20)

Conclusion:

Later date is 30th June 2022.

Therefore Commissioner can amend for the 2nd time by 30 June 2022.

S. 122(4) Ex - 2 (in Diagram form)



Example-3

Mr. Stumpout has filed a return of income for TY 2010 on 30-9-2010. Commissioner has amended the assessment for the first time on 31-1-2012. Identify the specific date by which further amendment can be made.

Solution-3

Further amendment can be made within later of30-6-2016 or 30-6-2013. In the given case, Commissioner can further amend the assessment by 30-6-2016.

Example-4

Mr. Timbuktu has filed a return of income for TY 2012 on 20-7-2012. Commissioner has amended the assessment for the first time on 28-2-2018. Identify the specific date by which further amendment can be made.

Provisional assessment in certain cases [Sec. 123]

(1) What power is available to Commissioner in case Government has impounded concealed assets of a person
Where Government has impounded a concealed asset of a person, Commissioner may, before issuing assessment order, issue a provisional assessment order, for the last completed tax year by adding the concealed asset.

(1A) Where Commissioner or any department or agency of the Federal Government or a Provincial Government discovers an offshore asset of any person (not declared earlier) they may, before issuing any assessment order (under section 121 or 122), issue a provisional assessment order for the last completed tax year by adding the offshore asset.

(2) The Commissioner shall finalise the order as soon as practicable.

(3) "Concealed asset" means any property or asset which was acquired from income chargeable to tax.

"Concealment of income" includes:

a) the suppression of any item of receipt liable to tax, or failure to disclose taxable income;
b) claiming any deduction/expenditure not actually incurred;
c) any act referred in section 111; and
d) claiming any income/receipt as exempt which is actually taxable.

Explanation.- All of above will only be considered as "concealment of income" if it is proved that taxpayer has knowingly and willfully committed these acts;

Assessment in relation to disputed property [Sec. 125]

What is the time limitation for issuing an assessment order after receipt of final decision of Court in respect of a disputed property

If there is a dispute in a Civil Court on ownership of a property whose income is chargeable, an assessment order may be issued within **1 year of the end of the financial year** in which Court decided the case.

There is a dispute for TY 2010. Court decoded case in 12 March 2019. Assessment order should be issued by 30 June 2020.

Evidence of assessment [Sec. 126]

Any assessment order issued will not be:

- quashed or considered void for want of form and
- considered as invalid because of reason of any mistake,

if taxpayer is designated in it according to common understanding.

APPEALS

APPELLATE AUTHORITIES

1st	Commissioner Inland revenue (Appeals)	CIR(A)
	↓	
2nd	Appellate. Tribunal Inland Revenue	ATIR
	↓	
3rd	High Court	H.C.
	↓	
4th	Supreme Court	S.C.

ADMIN AUTHORITIES

FBR
↓
Chief Commissioner Inland Revenue
↓
Commissioner Inland Revenue (CIR)
↓
Officers (i) Additional Comm.
(ii) Deputy Comm.
(iii) Assistant Comm.

VS

Tax payer

1. **Tax Payer Filed Return**

   Taxable income 20

2. **Audit Started and Commissioner issued amended assessment order u/s 122**

(i)

Amended Ass. Order

English ---

Income as per return	20
Add: Penalty	6
Add: Un-recorgnised P.F	4
Add: Provision for Doubtful debt	2
Taxable income / Revised income	32

(ii) **Demand Notice**
(Issued by Comm.)

Pay tax on extra Rs. 12

3. Tax payer will prepare **grounds of appeal**

   (i) Penalty is not paid to Govt.
   (ii) P.F is recognised
   (iii) Bad Debt is actual

Appeal to the Commissioner (Appeals) [Sec. 127]

(1) Circumstances giving rise to appeal to the Comm. (Appeals)/What is the first forum for filing an appeal

A person dissatisfied with following orders passed by a Commissioner/Officer of Inland Revenue may file an appeal to the Commissioner (Appeals):

- sub-section 2(A) of section 120 or
- best judgement assessment order (S.121) or
- amended assessment order (S. 122) or
- where a person is held personally liable to pay tax, or
- where he is declared as a representative of a non-resident person or
- appeal effect order or
- where Commissioner refuses to rectify a mistake, or
- an order which enhances assessment, reduces a refund or increases liability of the person,

(2) What is the condition for filing an appeal

An appeal cannot be filed if the taxpayer has not paid the tax alongwith the return.

(3) What are the requirements for filing an appeal

An appeal shall–

(a) be in the prescribed form;

(b) be verified in the prescribed manner;

(c) state the grounds of appeal;

(d) be accompanied by fee;

i) if the appeal is against an assessment:

a) where the appellant is a company, Rs. 5,000;

b) where the appellant is not a company, Rs. 2,500.

ii) in other cases:

a) where the appellant is a company, Rs. 5,000; or

b) where the appellant is not a company, Rs. 1,000.

(e) be filed within following time limits:

Scenario	Time limit
If appeal relates to assessment or penalty	It will be lodged with the Commissioner (Appeals) within 30 days of service of demand notice
If appeal does not relate to assessment or penalty	It will be lodged with the Commissioner (Appeals) within 30 days of the date of service of order

(3A) The Board may prescribe mechanism for electronic filing of the appeals.

Q.	Mr. Mark received a demand notice on 31-10-2012 to pay tax along with the penalty. He is of the opinion that Commissioner has made an undue demand. You are being hired as a tax expert to file an appeal with Commissioner (Appeals) as soon as possible. Advise him.
A.	An appeal can be lodged with the Commissioner (Appeals) within 30 days (i.e. upto 30-11-2012) of the date of service of demand notice.

(6) Can appeal be filed to Commissioner (Appeals) after the prescribed time limit

The Commissioner (Appeals) may admit an appeal after 30 days if a good cause is shown. The appellant has to apply for it.

Procedure in appeal [Sec. 128]

(1) The Commissioner (Appeals) shall give notice of the day for hearing to the appellant and Commissioner.

(1A) If Commissioner (Appeals) thinks that tax recovery shall cause undue hardship; he may stay recovery upto 30 days after providing Commissioner an opportunity of being heard.

(1AA) The Commissioner (Appeals), may stay tax recovery for a further period of 30 days after providing Commissioner an opportunity of being heard. However in this case Commissioner (Appeals) shall pass an order on appeal in the said period of 30 days.

(2) The Commissioner (Appeals) may adjourn the hearing from time to time.

(3) Can taxpayer before hearing of appeal file any new ground of appeal not specified in grounds of appeal

The Commissioner (Appeals) may, before hearing of an appeal, allow an appellant to file any new ground if he is satisfied that it was not willful.

(4) The Commissioner (Appeals) may, before deciding an appeal,

- call particulars or

make further enquiry through Commissioner.

(5) Can Commissioner(Appeals) accept any evidence which was not produced before the Commissioner

The Commissioner (Appeals) shall not accept any documentary evidence which was not produced before the Commissioner. However he may accept it if there was a reasonable cause.

Decision in appeal [Sec. 129]

Which type of orders can be passed by Commissioner (Appeals) at the time of disposal/decision of appeal

(1) In deciding (disposing) the appeal, the Commissioner (Appeals) may –

(a) make an order to
- confirm,
- modify or
- annul (cancel)

the assessment order after examining the evidence/causing enquires.; or

(b) in any other case, make such order as he thinks fit.

Can Commissioner (Appeals) increase the amount of any assessment order

(2) The Commissioner (Appeals) can only
- increase an assessment or
- decrease refund

if he has provided appellant a reasonable opportunity of showing cause.

(3) If after decision of an appeal:
- any change is made in the assessment of AOP or
- a new assessment of AOP is ordered,

the Commissioner (Appeals) shall authorise Commissioner to amend assessment of members of AOP also. In this case general time limit for amending the assessment will not apply.

What is the time limitation within which a Commissioner is required to decide an appeal

(4) After decision, the Commissioner (Appeals) shall specify the amount of tax upheld and serve the order to appellant and Commissioner. The Commissioner (Appeals) will pass an order within 120 days of filing of appeal. It can be extended by further 60 days.

Following time will not be counted in above days:
- adjournment at the request of the appellant or
- postponement due to alternative dispute resolution proceedings

Appointment of the Appellate Tribunal [Sec. 130]

(1) There shall be established an Appellate Tribunal to be called Appellate Tribunal Inland Revenue to exercise the powers and perform the functions.

(2) The Appellate Tribunal shall consist of a chairman and judicial and accountant members as appointed by the Prime Minister.

(3) A person shall be appointed as **judicial member** of an Appellate Tribunal if he:
a. Has been a Judge of a High Court;
b. Is or has been a District Judge; or
c. Is an advocate of a High Court with a standing of not less than 10 years; or
d. Possesses such other qualification as may be prescribed.

(4) A person shall be appointed as **accountant member** of an Appellate Tribunal if he:
a. is an officer of the Inland Revenue Service equivalent in rank to Chief Commissioner Inland Revenue;
b. is a Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals) having atleast 3 years' experience as Commissioner (or Collector);
c. has practiced professionally as a chartered accountant for atleast 10 years; or
d. has practiced professionally as a cost and management accountant for atleast 10 years.

(5) The constitution, functioning of benches and procedure of the Appellate Tribunal Inland Revenue shall be regulated by rules which the Prime Minister may prescribe.

Appeal to the Appellate Tribunal [Sec. 131]

(1) Second forum for filing appeal

Where the taxpayer or Commissioner objects to the order of Commissioner (Appeals), the taxpayer or the Commissioner may file an appeal to the Appellate Tribunal.

(2) Requirements for filing appeal

An appeal shall be–

(a) in the prescribed form;
(b) verified in the prescribed manner;
(c) accompanied by a fee (as mentioned in sub section (3)). Commissioner will not pay the fee.
(d) filed to the Appellate Tribunal within 60 days of service of order of the Commissioner (Appeals).

(3) The prescribed fee shall be Rs. 5,000 in case of company and Rs. 2,500 in cases other than company.

(4) Can appeal be filed to ATIR after the prescribed time limit

The Appellate Tribunal may admit appeal after 60 days if a good cause is shown.

(5) What is the status of demand raised when taxpayer is going to file an appeal to ATIR

If a taxpayer has filed an appeal, the tax as per assessment order will still be payable. However the taxpayer can apply to the Tribunal for stay of recovery.

On receiving application, if Tribunal considers that the recovery of tax (which is also upheld by the Commissioner (Appeals)), shall cause undue hardship to taxpayer, the Tribunal, may stay recovery of tax upto 180 days. It will be done after providing Commissioner an opportunity of being heard.

Where recovery of tax has been stayed as above, the stay order shall cease on expiration of 180 days following the date on which the stay order was made. Now Commissioner shall proceed to recover the tax.

Further in computing the above 180 days the period for which recovery of tax was stated by High Court shall be excluded.

Disposal of appeals by the Appellate Tribunal [Sec. 132]

(1) The Appellate Tribunal may, before deciding an appeal:

- call for the particulars or
- make further enquiry through Commissioner.

(2) The Appellate Tribunal shall hear the parties and, in case of default by any of party on the date of hearing, Tribunal may proceed ex parte to decide the appeal on the basis of the available record.

(2A) Time limitation for decision in appeal by ATIR.

The Appellate Tribunal shall decide the appeal within 6 months of its filing.

(3), (6) Orders which can be passed by ATIR at the time of disposal/decision of appeal

Where the appeal relates to an assessment order, the Appellate Tribunal may, make an order to –

(a) affirm, modify or annul the assessment order; or
(b) remand the case to the Commissioner or the Commissioner (Appeals) for making further enquiry.

Where appeal relates to decision other than assessment, Tribunal may make an order to affirm, vary or annul the decision.

(4) Can ATIR increase the amount of any assessment order

The Tribunal can only :

- increase an assessment or
- decrease refund

if opportunity of showing cause is provided to taxpayer.

(5) If after decision of an appeal:

- any change is made in assessment of an AOP or
- a new assessment of an AOP is ordered,

the Appellate Tribunal shall authorise the Commissioner to amend the assessment of the member of AOP accordingly. In this case general time limit for amending the assessment will not apply.

(7) The Appellate Tribunal shall communicate its order to the taxpayer and the Commissioner.

(10) Under which circumstance the decision passed by the Appellate Tribunal is final

If the order relates to question of fact, the decision of the Appellate Tribunal shall be final.

Reference to High Court [Sec. 133] (Reference application before High Court)

What are the requirements and time limitation for filing an appeal to High Court

(1) Aggrieved person or the Commissioner may refer an application with the statement of case to High Court within 90 days of the receipt of Appellate Tribunal order.

The application shall be on a prescribed form and shall state question of law. An application shall be accompanied by a fee of Rs. 100. Commissioner will not pay fee.

(2) The statement to High Court shall state:

a. the facts,
b. the determination of the Appellate Tribunal and
c. the question of law arising out of its order.

(3) After application, if High Court is satisfied that a question of law arises, it may proceed to hear the case.

(4) Reference to High Court shall be heard by a Bench of atleast 2 judges.

(5) The High Court after hearing reference shall decide the question of law and pass a judgment specifying the grounds. The copy of judgment will be sent to the Appellate Tribunal.

(6), (7) What is the status of tax demand raised as consequence of order of Appellate Tribunal if the taxpayer has filed a reference application in High Court

If a reference is made to High Court, the tax shall still be payable as per the order of the Appellate Tribunal.

When the stay order regarding recovering of tax passed by High court will cease to have effect

If recovery of tax is stayed by the High Court, this order shall expire in 6 months from the day it was passed. Order will expire immediately if:

- appeal is decided or
- order is withdrawn by High Court.

If because of order of High Court the tax is found refundable to taxpayer, is it mandatory on Commissioner to make the refund

If after judgement tax is to be refunded to the taxpayer, the High Court may say Commissioner, to postpone the refund if he intends to go to Supreme Court against the judgment. To avail this benefit, the Commissioner will apply to High Court in 30 days of the receipt of the judgment. The refund shall be postponed until Supreme Court decides the appeal.

Petition before Supreme Court

Supreme Court is the final forum for appeal. Provisions relating to filing of appeal in the Supreme Court of Pakistan has been omitted through Finance Act, 2005 because they are already included in Constitution of Pakistan.

Alternative Dispute Resolution [Sec. 134A]

(1)	Aggrieved person will apply to Board	An aggrieved person may apply to Board for appointing committee to resolve dispute of: (a) tax liability, or admissibility of refunds, (b) waiver of default surcharge and penalty; or (c) any other relief, The case should already be in litigation in any court/appellate authority. A case will not be referred to the Board where interpretation of question of law effect identical other cases. If an issue involves a mixed question of fact and law, the Board shall decide whether or not ADRC may be constituted.
(1A)	Proposition	The application by taxpayer shall be accompanied by an initial proposition for resolution from which he cannot retract later on.
(2)	Board will appoint a committee	In 30 days of application, the Board may appoint a committee comprising: (a) Chief Commissioner Inland Revenue having jurisdiction over the case (b) 2 persons from a panel (notified by the Board) comprising of chartered accountants, cost and management accountants, advocates, having minimum of 10 years' experience in tax field and reputable businessmen.
(3)	Communication of appointment of Committee	The Board shall communicate order of appointment of committee to: • Commissioner and • the court/appellate authority
(4)	Decision by Committee	The Committee shall examine the issue and conduct inquiry, seek expert opinion, conduct an audit and shall decide the dispute in 60 days of its appointment or with in an extended period of further 30 days.
(5)	Stay of tax recovery	The tax recovery shall be stayed on constitution of Committee till the earlier of: • the decision of the committee • its dissolution.
(6)	Committee order binding on Commissioner?	The decision of the committee shall be **binding on Commissioner:** • if aggrieved person has withdrawn appeal from the court/appellate authority and • has communicated order of withdrawal to Commissioner in 60 days of decision by Committee.
(10)	Tax payment	The aggrieved person may make pay tax as decided by the committee (under sub-section (4)) and all previous decisions, orders against him shall stand changed.
(6A)	If Committee does not decide	If the committee fails to decide within 60 days (extendable upto 30 days), the Board shall dissolve the committee and may re-constitute another committee (and all the provisions mentioned above shall apply mutatis mutandis to the second committee);
(7)		If 2nd Committee fails to decide within 60 days (extendable upto 30 days), the Board shall dissolve committee and the matter shall be decided by the relevant court/ appellate authority.
(8)	Communication of Dissolution order	The dissolution order (of committee) shall be communicated by Board to the court/ appellate authority and the Commissioner.
(9)		The dissolution order (of committee) shall be communicated by aggrieved person to the court/ appellate authority.
(11)	Remuneration of persons in panel	The Board will prescribe remuneration for members of the Committee, other than the member appointed under clause (a) of sub-section (2).
(12)	Rules	The Board will make rules for this section.

Rules for formation and working of ADRC [Rule 231C]

The Chairman shall be responsible for deciding **procedure to be followed by the Committee** which include the following:

(a) to decide about the place of sitting of the Committee, in consultation with the Director General RTO or LTU;

(b) to specify date and time for conducting proceedings by the Committee;

(c) to supervise the proceedings of the Committee;

(d) to issue notices
(e) to produce relevant records
(f) to ensure attendance of the applicant
(g) to consolidate recommendations to the Board.

Burden of proof [Sec. 136]

If taxpayer files an appeal, it is the liability of taxpayer to prove–
(a) in the case of assessment order, the assessment order does not correctly reflect the tax liability; or
(b) in other cases, that the decision is erroneous.

Assessment giving effect to an order [Sec. 124]

What is this order?

- A taxpayer filed a return for TY 2010 on 30-9-10 at Rs. 600,000.
- Assumed assessment order is issued on the same date at Rs. 600,000.
- Audit started and showcause notice was issued.
- Commissioner issued an amended assessment order at Rs. 900,000.
- The tax payer filed an appeal. The case is now pending in High court.
- High court decided that income is Rs. 800,000. Commissioner and taxpayer decided not to file an appeal against the court order.
- Now Commissioner will issue an assessment giving effect to court order (It is also called as appeal effect order).

(1) Time limit for issuing appeal effect order
Where an assessment order is to be issued after an appellate (court) order the Commissioner shall issue the appeal effect order (assessment order) within **2 years from the end of the financial year** in which appellate order is served.

Example
High Court has decided a case on 31-5-2012 in which Mr. Arif is required to pay some extra tax. Specify the time period within which Commissioner shall issue the appeal effect order?
Solution
Commissioner shall issue orders within 2 years from the end of the financial year in which the order of the appellate authority is served on commissioner. i.e., by 30-6-2014.

(4) Time limit for appeal effect order in case direct relief is provided
Where direct relief is provided by appellate authority, the Commissioner shall issue appeal effect order (assessment order) within 2 months of the date the appellate order is served.

(2) Time limit for issuing order by Commissioner in case an assessment is set aside
Where an assessment order has been set aside by any appellate authority, the new assessment order will be passed within **1 year from the end of the financial year** in which appellate order was served. The limit will not apply if taxpayer has filed an appeal against the order of appellate authority.

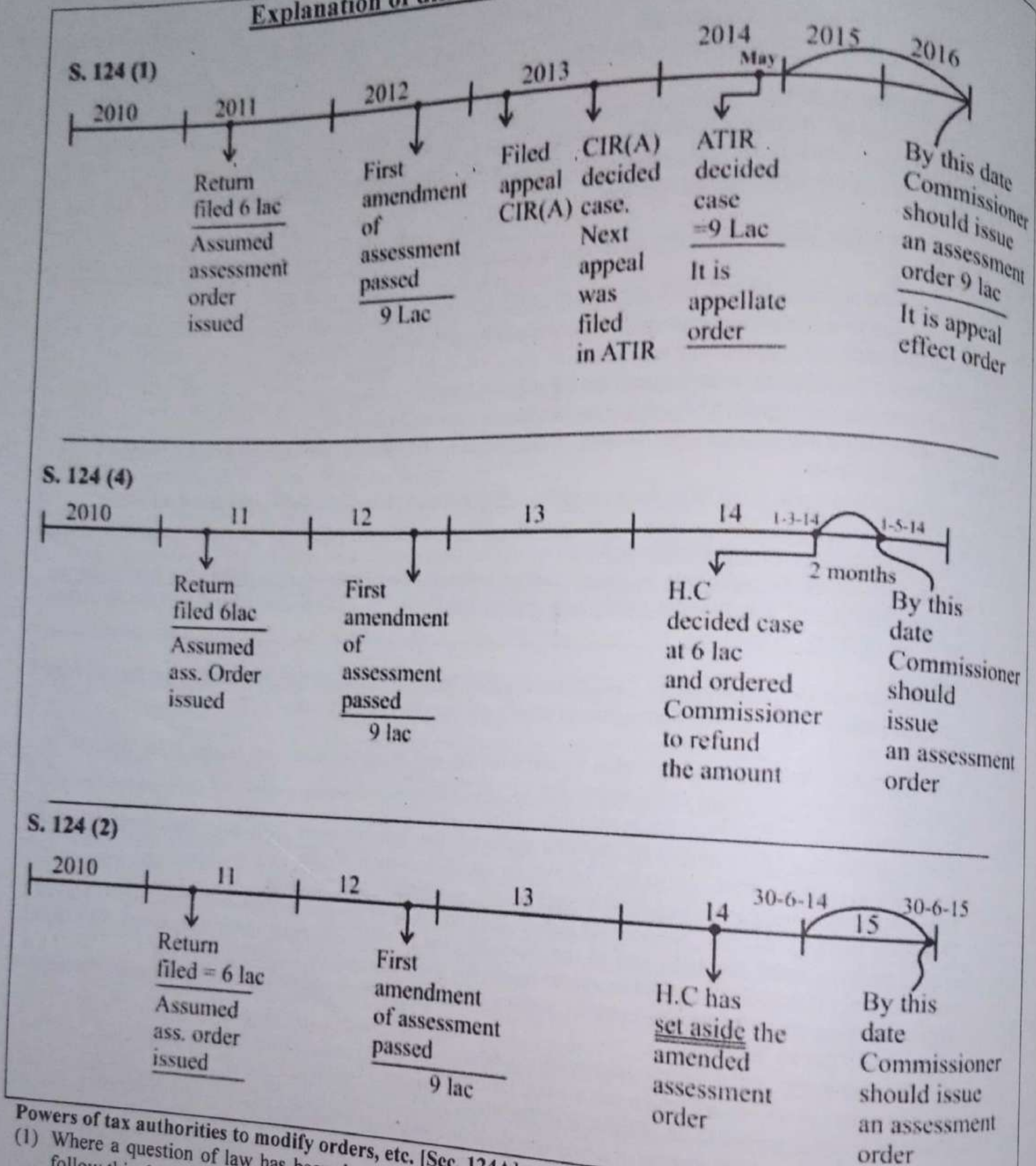
(3) Where an assessment order has been set aside/modified, the proceedings may commence from the next stage. It will not be necessary:
- to re-issue any notice which was already issued or
- to re-furnish any return which was already furnished.

(5) If due to an appellate order any income is reclassified–
(a) from the taxable income of a taxpayer from one year to another year; or
(b) from the taxable income of one taxpayer to another taxpayer,
the assessment order issued for other year/taxpayer is assumed to have been issued as a result of order of the appellate authority.

(6) Where appeal effect order is to be issued, general time limits for issuing assessment order will not apply.

Note: In case of an assessment order passed under section 124 (Appeal effect), the tax payable shall become payable immediately instead of payment within 30 days.

Explanation of different provisions of Section 124



Powers of tax authorities to modify orders, etc. [Sec. 124A]

(1) Where a question of law has been decided by High Court or the Appellate Tribunal, the Commissioner may, follow this decision for same taxpayer for other years pending before him, even if Commissioner is going in an appeal against the order.

(2) In case the decision is reversed (means that now it is decided against taxpayer), the Commissioner may modify all the assessments. This modification is to be made within 1 year of receipt of appellate order. In this case, the general limits for issuing assessment order will not apply.

Actions against assessment/amended assessment order

From the Tax department S.122A, 122B and 124A

From the Tax payer S.127,131,133 and 134A

Explanation of some of the sections in "mother language"

S.122 A

(1) Commissioner اپنے subordinate کے Records چیک کر سکتا ہے

(2) اس میں Revision کر سکتا ہے۔

(3) اس Order سے Comm. Tax Payer کو نقصان نہیں پہنچا سکتا

(4) Commissioner ان دو صورتوں میں اپنے Sub-ordinate کا Revise order نہیں کر سکتا۔

- اگر Taxpayer نے Subordinate کے فیصلے کے خلاف Court میں case کر دیا ہے۔
- اگر Taxpayer کے پاس Sub-ordinate کے فیصلے کے خلاف Appeal کرنے کا Time باقی ہے

S.122B

(1) Chief Comm. اپنے Sub-ordinate کا Record منگوا سکتا ہے۔ جس میں اس کے Sub. Or. نے Exemption Certificate دینے سے انکار کر دیا۔

(2) وہ اپنے Sub-ordinate کے order میں Revision کر سکتا ہے۔

S.123

(1) اگر حکومت نے کسی کا 'concealed asset' قبضے میں لے لیا ہے تو Commissioner اس کو پکا Ass. order دینے سے پہلے کچا Ass. Order دے گا۔

(2) کچے کو جلد از جلد پکا کرے گا۔

(3) یہ وہ Assets ہے جو ایسی Income سے خریدا ہے جو حکومت کو نہیں بتائی۔

S.125

اگر کسی Property کی Ownership Doubt میں ہے، تو اس کے Ass. Order کے لئے S.122 والی Time limits نہیں لگیں گی بلکہ Court کا فیصلہ آنے کے Financial year کے End کے ایک سال میں Assess. کر دی جائے گی۔

S.128

(1) CIR(A) دونوں کو بلائے گا۔

(1A) اگر CIR(A) مناسب سمجھے تو Comm. کو کہہ دے کہ Tax دینا Taxpayer کے لئے مشکل ہے تو Comm. 30 دن تک Taxpayer سے Tax نہیں مانگے گا۔ CIR(A) ایسا کرنے سے پہلے Comm. کو بتائے گا۔

(1AA) CIR(A) کمشنر کو بتا کر Taxpayer کو Tax جمع کرانے کے لئے 30 دن کی اور چھوٹ دے سکتا ہے لیکن اس کے لئے شرط ہے کہ پھر ان اگلے 30 دنوں میں Case کا فیصلہ سنا دے۔

(5) CIR(A) وہ ثبوت قبول نہیں کرے گا جو کمشنر کے سامنے Taxpayer نے پیش نہیں کیا تھا

S.129

(1)

History of case		Order of CIR(A) may be	
1. Return filed	Rs.20	1. Confirm	32
2. Amended ass. Order issued	Rs.32	2. Modify	22
		3. Annul / Cancel	20

(2) CIR(A) 32 سے زیادہ نہیں کر سکتا، ہاں ایک صورت میں کر سکتا ہے جب Taxpayer کو پہلے بتائے۔

(4) CIR(A) Appeal کرنے کے 120 دن میں فیصلہ سنائے گا، یا 60 دن اور دے سکتا ہے فیصلہ سنانے میں
120 دن (یا 60 دنوں) میں یہ دن نہیں گنے جائیں گے:

- اگر Taxpayer کہے کہ میں مصروف ہوں چند دن نہیں آ سکتا
- اگر Case ADRC میں چلا گیا ہے۔

Appeal کا مطلب یہ نہیں ہے کہ Assessment order والا Tax جمع نہیں کراتا وہ تو جمع کرانا ہی کرتا ہے۔ Taxpayer Tribunal کو کہہ سکتا ہے کہ ابھی میرے سے Tax recover نہ کیا جائے۔

S. 131(5)

اگر Tribunal کو لگے کہ Tax کا Recover کرنا Taxpayer کے لئے مشکلات پیدا کر سکتا ہے تو Tribunal اجازت دے سکتا ہے Taxpayer کو کہ 180 دن تک تم سے Tax نہیں Recover کیا جائے گا۔ بہر حال یہ اجازت دینے سے پہلے Tribunal Commissioner کو بتائے گا۔

(6) **دوسرا Para**

S. 133

اگر High Court کے فیصلے کے مطابق Tax واپس کرنا پڑے گا Taxpayer کو تو H.C Comm. کو اجازت دے سکتا ہے Tax واپسی کو Delay کر دے اگر Comm. کا S.C. جانے کا plan ہے۔ اس فائدہ کو حاصل کرنے کے لیے Comm. کو H.C. کو Application دینے پڑے گی۔ Refund تب تک نہیں کیا جائے گا جب تک S.C کا فیصلہ نہ آجائے۔

(7) H.C Tax Recovery 6 مہینے تک روک سکتا ہے لیکن Taxpayer کو 6 مہینے کے اندر Tax جمع کرانا پڑے گا اگر:

-1 Case کا فیصلہ اس 6 ماہ میں Taxpayer کے خلاف آجائے

-2 H.C اپنی دی ہوئی 6 مہینے کی اجازت خودی واپس لے لے۔

S.124(3)

کمشنر کے لیئے یہ ضروری نہیں ہے کہ کوئی Issue notice کر کے Data مانگے جو Notice پہلے کبھی Issue کر دیا ہو، یا کوئی Return بھی دوبارہ نہیں مانگے گا جو پہلے سے مانگ لی ہو۔

S. 124 (5)

اگر Court کے فیصلے میں یہ کہہ دیا جائے کہ یہ Income انجم کی نہیں ہے تو Comm. دو Assess. Ord. Issue کرے گا۔

-1 یہ Income انجم کی نہیں ہے۔

-2 یہ Income (say) اکرم کی ہے

اب اکرم یہ اعتراض نہیں کر سکتا کہ مجھے کیوں Assessment Order issue کیا کیونکہ اکرم کا order انجم کے case کے فیصلے کے تابع issue ہوا ہے۔

S. 124(6)

اس پورے Section پر S.124(2) اور S.124(4) کی limits نہیں لگتیں۔

S. 124 A

(1) اگر H.C کسی Question of law میں فیصلہ سنادے اور فیصلہ Taxpayer کے حق میں ہو تو Commissioner کو چاہیے کہ Same issue پر Taxpayer کو باقی سالوں کے لئے تنگ نہ کرے خواہ H.C. Comm. کے فیصلے کے خلاف آگے S.C. میں ہی کیوں نہ جا رہا ہو۔

(2) ہاں اگر بعد میں S.C (Say) اب کمشنر کے حق میں فیصلہ سنادے تو Commissioner اب پچھلے سارے سالوں کو اٹھا کر بدل دے اور ہر سال میں Taxpayer کی Income بڑھا دے اب S.122(2) اور S.122(4) والی Limit نہیں لگیں گی۔

ICAP PAST PAPER QUESTIONS

Question-1

You have received a letter from Mr. Zubair Ansari who is seeking your advice regarding the mode and procedure of filing an income tax appeal under ITO, 2001. Please draft a suitable reply briefly describing the appellate procedure and incorporate the following chart in your reply:

Name of Appellate Authority	Authority whose order may be appealed against	Filing fee	Limitation period for filing appeal	Decision in Appeal	Limitation Period for Decision

(12)

(Q.9 March 2002)

Question-2

Briefly explain the requirements of payment of tax viz-a-viz filing an appeal before the Commissioner Inland Revenue (Appeals)? (5)

(Q.8September 2003)

Question-3

Describe the requirements of Income Tax Ordinance, 2001 for a person who is about to discontinue his business. (5)

(Q.8 March 2004)

Question-4

(a) Briefly state the time limit within which the Commissioner is permitted to further amend an assessment? **(2)**

(b) Briefly state the time limit within which the Commissioner is required to pass an order to give effect to the finding or directions of the CIR(A)? (2)

(Q.9 September 2004)

Question-5

What is the status of a complete return of income filed under the Income Tax Ordinance, 2001? (5)

(Q.8March 2005)

Question-6

Describe the circumstances under which the Commissioner is empowered to issue a notice requiring a person to furnish a return of income for a period of less than twelve months. (4)

(Q.6 March 2006)

Question-7

What are the time limits prescribed by the Income Tax Ordinance, 2001 within which the Commissioner is required to pass an order to give effect to the decision of Appellate Tribunal Inland Revenue under the following circumstances?

a) The ATIR has set aside the assessment and order of the ATIR was received by the Commissioner on November 30, 2004. **(3)**

b) The ATIR has deleted the additions made by the assessing officer and the order of the Appellate Tribunal was received by the Commissioner on December 15, 2004. **(3)**

(Q.8 March 2006)

Question-8

Under what circumstances, an assessment made can be amended or an amended assessment can be further amended by the Commissioner Inland Revenue? **(5)**

(Q.6 (b) September 2006)

Question-9

One of your clients has received a notice demanding payment of tax in respect of an order issued by the Commissioner against which your client intends to file an appeal before the Appellate Tribunal.

You are required to explain the provisions contained in the Income Tax Ordinance, 2001 regarding stay of demand by the Appellate Tribunal. (6)

(Q.6 (a) September 2006)

Question-10

Every resident individual is required to furnish a wealth statement for that year along with the income tax return. State the main particulars that are required to be included in the wealth statement. (4)

(Q.6 (b) March 2007)

Question-11

In certain circumstances, the Income Tax Ordinance empowers the Commissioner to make assessment based on any available information or material, to the best of his judgment".
List down the conditions under which the Commissioner can exercise such powers. Also state the time limit within which such power can be exercised. (4)

(Q.4 (a)September 2007)

Question-12

Under what circumstances, the Commissioner can require a person to furnish a return of income for a period of less than twelve months? (4)

(Q.3 (c) March 2008)

Question-13

List the persons who are required to file a return of income under the Income Tax Ordinance, 2001. (6)

(Q.2 (a) September 2008)

Question-14

a) What do you understand by the term "definite information" as described in the Income Tax Ordinance, 2001? (3)

b) Nomani Industries (Pvt) Ltd filed their return of income for the year ended June 30, 2007 on December 31, 2007. On January 15, 2009, the Officer Inland Revenue issued a notice requiring the company to file the audited financial statements. The Officer Inland Revenue has also identified certain errors in the return of income filed for the year and has shown his intention to amend the assessment of the Company for the year.

Required:

(i) When is a return of income regarded as 'incomplete' for tax purposes?

(ii) Is the Officer Inland Revenue justified in issuing the above notice? Explain.

(iii) Discuss the circumstances under which taxation authorities may amend the assessment order of a company.

(iv) Identify the specific date up to which the taxation authorities may amend the assessment of Nomani Industries (Pvt) Ltd. Assume that the return of income was complete on December 31, 2007 when it was filed. (11)

(Q.5 March 2009)

Question-15

Mr. Sami has received a notice in March 2010 from the Commissioner to file return of income for the tax years 2003 and 2006 within 20 days of receiving the notice. In your capacity as a tax consultant, advise Mr. Sami on the following issues along with appropriate explanations.

(i) Is the Commissioner justified in issuing the above notice?

(ii) If Mr. Sami is not in a position to meet the deadline for filing the returns, can he get an extension? (7)

(Q.3(b)March 2010)

Question-16

List down the circumstances under which an original assessment can be amended or an amended assessment can further be amended, by the Commissioner of Inland Revenue. (5)

(Q.2(b)September 2010)

Question-17

Zucchini Associates (ZA), a tax consulting firm, has been invited by tax authorities to make a presentation on "Tax years and filing of tax returns" at a taxation seminar. Mr. Baqir, a senior partner at ZA, wants Mr. Bader, his newly appointed associate, to make the presentation. Under the provisions of Income Tax Ordinance, 2001 advise Mr. Bader about the points to be included in his presentation as regards the following:

(a) Description of normal, special and transitional tax years. (7)

(b) Persons who are required to furnish a return of income for a tax year. (8)

(c) Circumstances under which a Commissioner of Income Tax can require a person to furnish a return of income for a period of less than twelve months. (3)

(Q.6 March 2011)

Question-18

Identify the due dates for filing of income tax return in each of the following cases:

(i) A company whose income year ended on 30 September 2011.

(ii) A company whose income year ended on 31 December 2011.

(iii) A company whose income year would end on 31 March 2012.

(iv) A member of an association of persons (AOP) if the income year of the AOP would end on 30 June 2012. (3)

(Q.2 (b) March 2012)

Question-19

Zubaida is operating a business as a Wedding Event Planner since past 12 years. She had filed her complete return for the tax year 2007 on 20 August 2007. On 1 September 2012, Commissioner Inland Revenue (CIR) served a Show Cause Notice, requiring her to explain certain receipts which were credited to her account during the tax year 2007. Zubaida is uncertain as to whether CIR is empowered to issue such a notice after a lapse of so many years.

Required:

Advise Zubaida about the validity of the Show Cause Notice issued by CIR under the Income Tax Ordinance, 2001. **(4)**

(Q.4 September 2012)

Question-20

Mr. Dynamic has received a notice from the Commissioner in which he identified certain errors and deficiencies in the return filed for the last tax year.

Required:

(a) State the deficiencies on account of which the return submitted by Mr. Dynamic may be regarded as 'incomplete' for tax purposes. **(5)**

(b) Narrate the circumstances under which the Commissioner may amend Mr. Dynamic's assessment order. **(4)**

(Q.2 (b) March 2013)

Question-21

Zia has discovered an error in his annual income tax return submitted by him and intends to file a revised return voluntarily.

Required:

Under the provisions of Income Tax Ordinance, 2001:

(i) narrate the conditions which Zia has to comply with in order to submit a valid revised return. **(4)**

(ii) state the benefits which Zia could derive by filing the revised return voluntarily. **(2)**

(Q.2 September 2013)

Question-22

State the requirements which a person should comply with, on discontinuing a business **(3)**

(Q.2 (c) March 2014)

Question-23

a) List the persons who are required to furnish a return of income for a tax year under the Income Tax Ordinance, 2001. **(06)**

b) Specify the circumstances under which the Commissioner has powers to issue notice demanding a return of income from certain person(s) for less than one year. **(03)**

c) State the powers of the Commissioner if a taxpayer fails to furnish return as required under part (b) above, within the specified time. **(04)**

(Q.2 March 2015)

Question-24

Under the provisions of the Income Tax Ordinance, 2001 determine the date by which appeal can be filed with the Commissioner (Appeals) where assessment order for tax year 2014 was made on 31 December 2014. Demand notice was served on 1 January 2015. **(02)**

(Q.3 (b) September 2015)

Question-25

Maroof filed his return of income for tax year 2015 on 30 September 2015. On 15 August 2016 he received a show cause notice from the Commissioner Inland Revenue u/s 122 for amendment of the assessment order issued on self-assessment basis.

Required:

Under the provisions of the Income Tax Ordinance, 2001 briefly describe:

(a) the circumstances under which an assessment order treated as issued on self-assessment basis may be amended by the Commissioner. **(04)**

(b) the situations in which the Commissioner may be barred from amending the original assessment order. **(04)**

(Q.2 September 2016)

Question-26

List the persons who may be granted immunity from filing of tax return u/s 114 of the Income Tax Ordinance, 2001 solely by reason of owning immovable property with a land area of five hundred square yards or more or any flat located in areas falling within the municipal limits. (03)

(Q.3 (e) September 2016)

Question-27

(a) List the persons who are required to file a tax return under the provisions of the Income Tax Ordinance, 2001. (06)

(b) In the light of the provisions of the Income Tax Ordinance, 2001:

(i) Identify the circumstances under which the Commissioner of Income Tax may require a person to furnish a return of income for a period of less than twelve months. (03)

(ii) State the consequences if a person fails to furnish the return as required in (i) above. (03)

(Q.5 March 2017)

Question-28

Zahid, the sole proprietor of FG and company, is a resident individual and is in the process of filing his wealth statement for the tax year 20X7. The relevant information is as under:

(i) Assets and liabilities disclosed in the wealth statement for the tax year 20X6 were as follows:

	Rupees
Assets	
Agriculture land in Hyderabad	5,000,000
Residential property in DHA Karachi	3,000,000
Investment in shares of listed companies	1,100,000
Business capital-FG & Co.	4,000,000
Motor vehicle	1,540,000
Cash at bank	600,000
Cash in hand	300,000
	15,540,000
Liabilities	
Bank loan	(1,500,000)
Net assets	**14,040,000**

(ii) Details relating to FG & Co. are as follows:

	Rupees
Income from business for the tax year 20X7	2,540,000
Drawings during the year	450,000

(iii) Balance of cash in hand and at bank, as on 30 June 20X7 amounted to Rs. 157,500 and Rs. 730,000 respectively.

(iv) Transactions carried out by Zahid during the year were as follows:

- Paid an advance of Rs. 1,000,000 against purchase of a bungalow for Rs. 10,000,000.
- Sold shares of a listed company for Rs. 350,000. The shares were purchased on 1 May 20X6 for Rs. 50,000. Capital gain tax collected by NCCPL amounted to Rs. 37,500.
- Gifted shares of a listed company to his brother. The shares were purchased by Zahid in 20X2 at a cost of Rs. 100,000 whereas market value of the shares at the time of gift was Rs. 150,000.
- Paid Rs. 200,000 towards principal amount of the bank loan.
- Personal expenses amounted to Rs. 2,075,000.
- Net receipts against agricultural income amounted to Rs. 2,500,000.

Required:

Prepare Zahid's wealth statement and wealth reconciliation statement for the tax year 20X7. (07)

(Q.6 March 2017)

Question-29

List the situations under which an original assessment can be amended or an amended assessment can be further amended by the Commissioner of Income Tax. Also state the time period within which the original or the previously amended assessment order can further be amended. **(07)**

(Q.4 (b) September 2017)

Question-30

(a) Under the provisions of the Income Tax Ordinance, 2001 briefly discuss the following:

(i) The term 'Concealed assets'. **(02)**

(ii) The powers of Commissioner relating to the concealed assets of any person when these are impounded by the Federal Government. **(03)**

(b) Anwar had filed his return of income for the tax year 2013 on 31 August 2013. Discuss the following in the light of provisions of the Income Tax Ordinance, 2001:

(i) By which date the Commissioner of Income Tax could make the first amendment of the assessment, if required. **(02)**

(ii) By which date any further amendment can be made if the first amendment was made on 15 February 2017. **(02)**

(Q.3 (a), (b) March 2018)

Question-31

Identify due date of filing of tax return in each of the following cases, under the provisions of the Income Tax Ordinance, 2001:

(i) An individual who derives his income from business which falls under normal tax regime. **(0.5)**

(ii) An individual filing return in response to a notice received from the Commissioner who believes that he is likely to discontinue his business. **(01)**

(iii) An individual filing return in response to a notice received from the Commissioner for not filing return of income of the previous tax year. **(01)**

(iv) A company. **(01)**

(Q.4 (b) March 2018)

Question-32

Specify the circumstances under which the Commissioner of Income Tax has powers to issue notice demanding a return of income from certain person(s) for a period of less than twelve months. Also state the powers of the Commissioner if such person fails to furnish the return as required, within the specified time. **(06)**

(Q.4 (b) September 2018)

Question-33

Haider, a filer, was carrying on business as a cloth trader. On 28 October 20X7 there was a fire in his shop and the entire stock of clothes costing Rs. 1,550,000 was destroyed. The insurance company refused to pay the claim. Consequently, Haider ceased his business on 31 January 20X8.

After cessation of business, Haider filed an appeal against the insurance company and was able to recover Rs.1,300,000 as full and final settlement from the insurance company in tax year 20X9.

Required:

Under the Income Tax Ordinance, 2001:

(i) state the requirements that Haider should comply with, on cessation of his business on 31 January 20X8. **(03)**

(ii) briefly discuss the treatment of the recovered amount in the tax year 20X9. **(02)**

(Q.2 (a) March 2019)

Question-34

Imran, a resident person, is filing the return of his business income for the first time. He has been informed by his friend that he will also be required to file a wealth statement. In this respect, he seeks your advice about the particulars which he should disclose in his wealth statement. **(04)**

(Q.3 (a) March 2019)

Question-35

(a) Under the Income Tax Ordinance, 2001 identify **four** situations under which an appeal may be filed with the Commissioner (Appeals). **(04)**

(b) Sadiq Ali has received an ex-parte assessment order from the income tax department under which he is required to pay Rs. 5.2 million on account of tax not withheld from certain payments. He does not agree with the contention of the income tax department and would like to file an appeal to the Commissioner (Appeals).

Required:
State the procedure that he should follow for filing of appeal to the Commissioner (Appeals). **(03)**

(Q.4 (a), (b) March 2019)

Question-36

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, discuss:

a) who is required to file the foreign income and assets statement? Also state the particulars to be included m such statement. **(05)**

b) the concept of 'Concealed asset' and state the powers of the Commissioner relating to concealed asset of any person when it is impounded by the Federal Government. **(05)**

(Q.3 (b), (c) March 2020)

Question-37

On 2 July 2019, Rubina received a show cause notice u/s 122 from the Commissioner Inland Revenue (CIR) for amendment of the assessment order for tax year 2018. Due to lack of knowledge about tax matters, she did not respond to it.

On 1 August 2019, she received a demand notice under which she was required to pay Rs. 610,000 within 30 days on account of undeclared income and an amended assessment order for tax year 2018 under section 122 from the CIR.

Rubina is dissatisfied with the order issued by the CIR and wants to file an appeal to the Commissioner (Appeals) because payment of this amount will cause hardship to her.

Required:

Under the provisions of the Income Tax Ordinance, 2001:

(i) state the time period within which an appeal may be filed by Rubina to the Commissioner (Appeals). **(01)**

(ii) discuss different types of orders that the Commissioner (Appeals) may make for disposing of an appeal. **(02)**

(iii) explain what action(s) the Commissioner (Appeals) may take for ensuring that no undue hardship will be caused to Rubina because of the payment of this demand. **(03)**

(iv) discuss the option(s) available to Rubina for defending her case, if the Commissioner (Appeals) issues an order confirming the amended assessment order issued by the CIR. **(02)**

(Q.3(a) Sep. 2020)

Question-38

Star Garments Limited (SGL) had filed its tax return for the tax year 2015 on 30 September 2015.

On 25 February 2021, the Commissioner of Income Tax, on the basis of definite information, issued a notice u/s 122 (5) to SGL for the audit of books of account for the tax year 2015.

The accountant informed the chief executive officer that tax audit for the tax year 2015 had already been conducted in 2019 and an amended assessment order u/s 122(5A) was issued by the Commissioner on 24 February 2020.

Required:

Under the provisions of the Income Tax Ordinance, 2001:

(a) Explain the term 'Definite information'. **(02)**

(b) Discuss whether the Commissioner is empowered to make further amendment in the assessment order issued on 24 February 2020. **(07)**

ICAP PAST PAPER SOLUTIONS

Answer-1

Note for students: Draft the reply yourself; the table for your help is given below.

Name of Appellate Authority	Authority whose order may be appealed against	Filing Fee	Limitation period for filing appeal	Decision in Appeal	Limitation Period for decision
CIR (Appeals)	Order of CIR Order of Officer of inland revenue	127(3)(d)	127(3)(e)	129(1)	The Commissioner (Appeals) will pass an order within 120 days of filing the appeal. The period can be extended by further 60 days by recording the reasons in writing.
Appellate Tribunal Inland revenue (ATIR)	CIR (Appeals)	The prescribed fee shall be Rs. 5,000 in case of company and Rs. 2,500 in cases other than company.	The appeal shall be preferred to the Appellate Tribunal within sixty days of the date of service of order of the Commissioner(Appeals)	132(2),(6)	The Appellate Tribunal shall decide the appeal within six months of its filing.
High Court	Appellate Tribunal Inland revenue (ATIR)	Rs. 100 however Commissioner is not required to pay the fee.	The aggrieved person or the Commissioner may prefer an application along with the statement of case to the High Court within 90 days of the communication of the order of the Appellate Tribunal.	The High Court upon hearing a reference shall decide the question of law and pass a judgment specifying the grounds on which it is based	N/A
Supreme Court	High Court				

Answer-2

No appeal can be preferred unless the taxpayer has paid the tax along with the return of income. [S.127(2)]

Requirements for filing appeal

Refer S. 127(3)

Answer-3

S. 117

Answer-4

a) Where an assessment order has been amended the Commissioner may further amend, as many times as may be necessary, the original assessment within the later of – [S.122(4)]

a) Five years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order; or

b) one year from the end of the financial year in which amended assessment order was passed.

b) Where an assessment order or amended assessment order is to be issued to give effect to an order passed by the Commissioner (Appeals), the Commissioner shall issue the order within 2 years from the end of the financial year in which the order of the appellate authority is served on the Commissioner. [S. 124(1)]

Answer-5

S. 120(1)

Answer-6

This was an easy question and was attempted well by most of the candidates, however very few candidates were able to mention all the circumstances under which the commissioner can issue a notice requiring a person to file a return for a period of less than twelve months.

S. 114(3)

Answer-7

This again highlighted the poor grasp of the candidates on the subject. The question required the time limits for giving the appeal effects viz within one year after the close of current financial year for question (a), and two months on receipt of order in question (b). Most candidates could not give the correct answer as above.

a) Where an assessment order has been set aside by any appellate authority and the appellate authority has given directions to Commissioner or Commissioner (Appeals) to make a new assessment order, they will pass the new order within 1 year from the end of the financial year in which the order of appellate authority is served on them.[S. 124(2)]

In this specific case the last date by which order should be passed is 30.06.2006.

b) Where direct relief is provided in an order under section 129 or 132, the Commissioner shall issue appeal effect orders within 2 months of the date the Commissioner is served with the order.[S. 124(4)]

Answer-8

S. 122(5) and (5A)

Answer-9

The performance was very poor in this question. Many students mentioned the condition for filing of an appeal before the ATIR instead of commenting on the provisions regarding the stay of demand. The relevant provisions are explained in Section 131(5) of ITO 2001.

S. 131(5)

Answer-10

This was also a very simple question from section 116 of the ITO-2001 and most of the candidates attempted it well and secured full marks.

S. 116(1)

Answer-11

It was a simple theoretical question from section 121 of the Income Tax Ordinance, 2001 and many candidates secured full marks. Some of the omissions that were observed by the examiners are described hereunder:

- One of the conditions mentioned by many candidates was that "Commissioner can make best judgment assessment if a person has not filed his tax return". This statement is incomplete and the full spirit of this provision should include "Despite being served a notice by the Commissioner".
- Many candidates could not point out that assessment based on best judgment can only be made within five years of the end of the related tax year.

S. 121(1),(3)

Answer-12

The candidates were required to describe the circumstances under which the return of income for a period less than twelve months, may have to be filed. The question was generally well answered; however, the following deficiencies were commonly found:

- Most of the students wrote that persons leaving Pakistan are required to file such a return, whereas only those persons who are leaving Pakistan permanently are required to file such a return.
- Very few of the candidates mentioned about the power of the Commissioner, to demand such return in any situation where he deems it appropriate to do so.

S. 114(3)

Answer-13

S. 114(1), (1A)

Answer-14

a)
Most of the students preferred giving their own version of "definite information" instead of restricting its scope to the contents of Section 122 of the ITO-2001. Many of them wasted their time in explaining the source of information instead of explaining "definite information".

S. 122(8)

b)
(i) It was a simple question. Most of the students were able to specify that a return is considered complete if it is in accordance with Section 114of the ITO-2001 and narrated the conditions mentioned therein also.
(ii) It was another simple question from Section 120 of the ITO-2001 and well attempted by majority of the students.
(iii) This question based on Section 122 of the Income Tax Ordinance 2001required the students to describe the circumstances under which the taxation authorities may amend the assessment order. Instead, many students tried to explain various provisions related to amendment of the assessment order as a result of decision on appeals.
(iv) A very simple question from Section 122 of the ITO-2001 and large number of candidates secured full marks.

(i) When it does not fulfill the requirements of S.114(2)

(ii) Where the return of income furnished is not complete, the Commissioner shall issue a notice to the taxpayer in which he will inform about the deficiencies (other than incorrect amount of tax payable on taxable income, as specified in the return, or short payment of tax payable) and will direct him to provide such information, particulars, statement or documents by such date as specified in the notice. [S.120(3)]
The above notice can be issued within 180 days from the end of financial year in which the return is furnished. [S.120(6)]
The notice is not issued on time therefore he is not justified in issuing the notice.

(iii) S. 122(5), (5A)

(iv) An assessment order can be amended within 5 years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order [S.122(2)]. So the specific date is 30.06.2013.

Answer-15

i) Where the Commissioner is of the view that Mr. Sami is required to file the return of income but has failed to do so, the Commissioner is empowered to issue a notice requiring him to furnish the return of income. However, he can issue such notice in respect of the last five tax years and therefore issuance of notice for tax year 2003 cannot be justified.
Further as per S. 114(4) Commissioner will give him 30 days from date of service of notice. However Commissioner may allow a longer period or shorter period. So regarding 20 number of days being allowed the notice is justified for TY 2006.

ii) The Commissioner may extend the timeframe for furnishing the return, if he is satisfied that the applicant is unable to furnish the return of income by the due date because of: [S.119(3)]

- his absence from Pakistan;
- sickness or other misadventure; or
- any other reasonable cause

However, an extension of time shall not exceed 15 days from the due date for furnishing the return of income unless there are exceptional circumstances justifying a longer extension of time.
Where the Commissioner has not granted extension for furnishing return, the Chief Commissioner may on application made by taxpayer grant extension or further extension upto 15 days. In exceptional circumstances longer time may be granted.

Answer-16
S. 122(5) and (5A)

Answer-17

a) S. 74(1),(2) and (9)
b) S. 114(1),(1A)
c) S. 114(3)

Answer-18

(i) On or before 30 September 2012.
(ii) On or before 30 September 2012.
(iii) On or before 31 December 2012.
(iv) On or before 30 September 2012.

Anwser-19
An assessment order can be amended within 5 years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order [S.122(2)].The last date in this case is June 30, 2013, therefore show cause notice issued is valid.

Answer-20

i) A return of income – [S.114(2)]
   (g) shall be in the prescribed form and shall contain prescribed annexures and statements; The Board may prescribe different returns for different classes of income or persons (including persons subject to final taxation).
   (h) shall state all the relevant particulars, including a declaration of the records kept;
   (a) shall be signed by an individual and in case of other persons it shall be signed by person's representative.
   (b) shall contain evidence of payment of tax as indicated in return.
   (c) shall contain a wealth statement (u/s 116)
   (d) shall be accompanied with a foreign income and assets statement.

   If any of the above condition is not fulfilled the return filed by Mr. Dynamic will be considered as 'incomplete'.
ii) Following are the circumstances under which return of Mr. Dynamic can be amended:
   Refer S. 122 (5), (5A)

Answer-21
a) S. 114 (6)

b) If Zia files return before receipt of notice of audit (voluntarily) by paying tax short paid/evaded + default surcharge, then no penalty will be recovered.

Answer-22
A person discontinuing a business shall give Commissioner a notice within 15 days of the discontinuance.
The person discontinuing a business shall on being required by the Commissioner by notice, furnish a return. The period of return will start from the 1st day of tax year(of discontinuance) and will end on the date of discontinuance. This period shall be treated as a separate tax year. [S.117]

Answer-23

a) Sec 114(1), 114(1A)
b) The Commissioner may give notice to a person to furnish a return for a period of less than 12 months, if– [S.114(3)]
   (a) the person has died;
   (b) the person has become bankrupt or gone into liquidation;
   (c) the person is about to leave Pakistan permanently;
   (d) the Commissioner otherwise considers it appropriate.
c) If a person fails to file a return after receiving notice from Commissioner, the Commissioner may, based on available information and exercising his best judgement, make an assessment of the income and tax. [S.121 (1)]

Answer-24
As per S.127 (3) (e) if appeal relates to an assessment, it will be lodged with the Commissioner (appeals) within 30 days of service of demand notice i.e. upto 31 January 2015.

Answer-25
(a) First ground on which assessment can be amended
The Commissioner may amend or further amend an assessment order, where through audit or on the basis of definite information, he is satisfied that –
(i) any income chargeable to tax has escaped assessment; or
(ii) total income is under-assessed, or lower tax rate is applied, or excessive relief is provided; or
(iii) any amount under a head of income has been misclassified.

Second ground on which assessment can be amended
The Commissioner may amend/further amend an assessment order, if order is prejudicial to interest of revenue.
(b) The Commissioner shall not amend any assessment order:
- after **5 years from the end of the financial year** in which the Commissioner has issued or is treated to have issued the original assessment order. [S. 122(2)]
- unless taxpayer has been provided with an opportunity of being heard. [S. 122(9)]

Answer-26
The following persons may be granted immunity from filing of tax return u/s 114 of the Income Tax Ordinance, 2001 solely by reason of owning immovable property with a land area of five hundred square yards or more or any flat located in areas falling within the municipal limits:
(a) A widow;
(b) an orphan below the age of 25 years;
(c) a disabled person; or
(d) a non- resident person

Answer-27
(a) Section 114(1), 114(1A)
(b) (i) The Commissioner may give notice to a person to furnish a return for a period of less than 12 months, if–
(a) the person has died;
(b) the person has become bankrupt or gone into liquidation;
(c) the person is about to leave Pakistan permanently;
(d) the Commissioner otherwise considers it appropriate.
(ii) If a person fails to file a return after receiving notice from Commissioner, the Commissioner may, based on available information and exercising his best judgement, make an assessment of the income and tax. [S. 121 (1)]

Answer-28

Mr. Zahid
Wealth Statement
For Tax Year 20X7

Wealth statement			
Assets:			
Agricultural land in Hyderabad			5,000,000
Residential property in DHA Karachi			3,000,000
Investment in shares of listed company	(1,100,000 – 50,000 - 100,000)		950,000
Business capital-FG & Company	(4,000,000 + 2,540,000 – 450,000)		6,090,000
Motor vehicle			1,540,000
Cash		157,500	
Bank		730,000	887,500
Advance			1,000,000
			18,467,500
Less Liabilities:			
Loan	(1,500,000 – 200,000)		(1,300,000)
Total			17,167,500

(W)

Cash & Bank (600,000 + 300,000 + 450,000 – 1,000,000 + 350,000 -37,500 – 200,000 – 2,075,000 + 2,500,000) 887,500

Mr. Zahid
Wealth Reconciliation Statement
For Tax Year 20X7

Opening wealth		14,040,000
Add Sources:		
Income from Business		2,540,000
Gain on shares	(350,000 – 50,000)	300,000
Net Receipts from Agricultural land		2,500,000
		5,340,000
Less:		
Tax on capital gain		37,500
Share gifted		100,000
Personal expenses		2,075,000
		(2,212,500)
Total		17,167,500

Answer-29

Situations Refer S. 122(5) and (5A)
Time period Refer S. 122(2) and (4)

Answer-30
(a)

(i) "Concealed asset" means any property or asset which was acquired from income chargeable to tax.
(ii) Where Government has impounded a concealed asset of a person, Commissioner may, before issuing assessment order, issue a provisional assessment order, for the last completed tax year by adding the concealed asset.
The Commissioner shall finalise the order as soon as practicable

(b)
(i) An assessment order can be amended within 5 years from the end of the financial year in which the Commissioner has issued or is treated to have issued the original assessment order.
Therefore first amendment of assessment can be made by 30-June-2019.

(ii) If an assessment order has been amended, Commissioner may further amend, as many times as may be necessary, the original assessment within the later of –
(a) 5 years from the end of the financial year in which the Commissioner has issued or is treated as having issued the original assessment order; or
(b) 1 year from the end of the financial year in which amendment was passed.
Therefore further amendment of assessment can be made within the later of:
- 30-06-2019
- 30-06-2018

Hence further amendment of assessment can be made by 30-06-2019

Answer-31
(i) Return of income by an individual or AOP shall be filed on or before September 30th next following the end of the tax year. [S. 118 (3)]
(ii) It will be furnished by the due date specified in the notice. [S. 118 (5)]
(iii) He will file it within 30 days of date of service of notice. Commissioner may allow a longer period. [S.114 (4)]
(iv) A company will file its return of income as follows –

Tax year ends	Due date for filing
If the tax year ends between January 1st to June 30th	On or before December 31st next following the end of the tax year
If the tax year ends between July 1st to December 31st	On or before September 30th next following the end of the tax year

Answer-32
The Commissioner may give notice to a person to furnish a return for a period of less than 12 months, if–
a) the person has died;
b) the person has become bankrupt or gone into liquidation;
c) the person is about to leave Pakistan permanently;
d) the Commissioner otherwise considers it appropriate.

The return will be furnished by the due date specified in the notice.
If a person fails to furnish the return, the Commissioner may, based on available information and exercising his best judgement, make an assessment of the income and tax. Now assumed assessment shall have no legal effect. **[S.121]**

Answer-33
i) Haider should comply with the following requirements on cessation of his business:
- He shall give Commissioner a notice within 15 days of the discontinuance i.e. by 15 February 20X8.
- He shall himself or being required by the commissioner by notice, furnish a return. The period of return will start from 1st day of tax year (of discontinuance) and will end on the date of discontinuance. This period will be treated as separate tax year;
- The return will be furnished by Haider by the due date specified in the notice. **[S.117(1)(2)]**

ii) If a taxable source of income ceases to exist either:
- before the commencement of the year or
- during the tax year,

then any subsequent benefit derived from it shall be taxable in normal way assuming that the source has not ceased at the time income was derived.
Therefore, Rs. 1,300,000 received from Insurance company would be considered as income from business of Haider and would be taxable in the normal way. **[S.72]**

Answer-34

Refer S. 116 (1)

Answer-35

a) A person dissatisfied with following orders passed by a Commissioner/Officer of Inland Revenue may file an appeal to the Commissioner (Appeals):

i. best judgement assessment order (S.121) or
ii. amended assessment order (S. 122) or
iii. where a person is held personally liable to pay tax, or
iv. where he is declared as a representative of a non-resident person or
v. appeal effect order or
vi. where Commissioner refuses to rectify a mistake, or
vii. an order which enhances assessment, reduces a refund or increases liability of the person **[S. 127]**

b) Sadiq Ali will adopt the following procedure for filing of appeal to the commissioner (appeals). It shall:

a. be in the prescribed form;
b. be verified in the prescribed manner;
c. state the grounds of appeal;
d. be accompanied by fee of Rs.1,000 as it relates to assessment.
e. It will be lodged with the Commissioner (Appeals) within 30 days of service of demand notice

Answer-36

a)

Persons required to file statement

Every resident individual having:

- foreign income equal to or greater than 10,000 United States dollars or
- having foreign assets with a value equal to or greater than 100,000 United States dollars

shall furnish a foreign income and assets statement.

Particulars

The particulars include the following:

(a) the person's total foreign assets and liabilities as on the last day of the tax year;
(b) any foreign assets transferred by the person to any other person during the tax year and the consideration received; and
(c) complete particulars of foreign income, the expenditure derived during the tax year and that the expenditure wholly and necessarily for the purposes of deriving the said income.

b)

Concept of concealed asset

"Concealed asset" means any property or asset which was acquired from income chargeable to tax.

Power of commissioner relating to concealed asset

Where Government has impounded a concealed asset of a person, Commissioner may, before issuing assessment order, issue a provisional assessment order, for the last completed tax year by adding the concealed asset.

Where Commissioner or any department or agency of the Federal Government or a Provincial Government discovers an offshore asset of any person (not declared earlier) they may, before issuing any assessment order, issue a provisional assessment order for the last completed tax year by adding the offshore asset.

The Commissioner shall finalise the order as soon as practicable.

Answer-37

(i) Rubina can file an appeal with Commissioner (Appeals) within 30 days from the date of service of demand notice which is 31 August 2019.

In deciding (disposing) the appeal, the Commissioner (Appeals) may –

(ii) (a) make an order to
- confirm,
- modify or
- annul (cancel)

the assessment order after examining the evidence/causing enquires.; or

(b) in any other case, make such order as he thinks fit.

(iii) If Commissioner (Appeals) thinks that tax recovery shall cause undue hardship; he may stay recovery upto 30 days after providing Commissioner an opportunity of being heard.
The Commissioner (Appeals), may stay tax recovery for a further period of 30 days after providing Commissioner an opportunity of being heard. However in this case Commissioner (Appeals) shall pass an order on appeal in the said period of 30 days.

(iv) Rubina may appeal to the Appellate Tribunal (ATIR) against the order issued by the Commissioner (Appeals) within 60 days of the date of service of order of Commissioner (Appeals).

Answer-38

a. S.122(8)

b. The Commissioner may amend or further amend an assessment order, where through audit or on the basis of definite information, he is satisfied that –

(i) any income chargeable to tax has escaped assessment; or
(ii) total income is under-assessed, or lower tax rate is applied, or excessive relief is provided; or
(iii) any amount under a head of income has been misclassified.

The Commissioner may amend/further amend an assessment order, if order is prejudicial to interest of revenue.

If an assessment order has been amended Commissioner may further amend, as many times as may be necessary, the original assessment within the later of –

(a) **5 years from the end of the financial year** in which the Commissioner has issued or is treated as having issued the original assessment order; or

(b) **1 year from the end of the financial year** in which amendment was passed.

The second amendment of assessment can be made within later of:

- 5 years from the end of the financial year in which Commissioner has issued assumed assessment order (30-06-21)
- 1 year from the end of financial year in which first amendment of assessment has been made (30-06-21)

Conclusion:

Therefore Commissioner may further amend an assessment by 30 June 2021 and he is justified.

OTHER QUESTIONS

a)	Who is required to file a return	S. 114(1)
b)	When a return is treated to be complete	S. 114(2)
c)	Can Commissioner require a return for a period of less than 12 months	S. 114(3)
d)	For how many previous years Commissioner can demand return	S. 114(5)
e)	A person has forgotten to claim certain expenses incurred by him. What option is available to him and what condition is attached there to	S. 114(6)
f)	The Commissioner has started the audit of a Chromatic Pharmaceutical company a subsidiary of Chromatic Holland. Please advise Chromatic company about the consequence if it wishes to file return: a. Before receipt of notice for show cause b. After receipt of notice for show cause	S. 114(6A)
g)	On whom it is binding to file wealth statement	Selected provision of S. 116.
h)	Is it binding on salaried tax payers to file an electronic return of income	S. 118(2A)
i)	What is the time limitation for filing a wealth statement	Selected provision of S. 116.
j)	Mr. Bilal Jutt has dividend income amounting to Rs. 400,000. He is of the view as all of his income falls under final tax regime so it is not binding on him to file a wealth statement. Please Comment on his view point	No it is binding to file as per S. 116(4).
k)	What are the grounds on which taxpayer can get an extension in respect of filing of return	S. 119 (3)
l)	What is the status of complete return of income filed by a taxpayer	S. 120 (1)
m)	What is the status of revised return of income filed by a taxpayer	S. 122(3)
n)	Vintos AOP has recently filed a return of income. The accounting depreciation schedule is missing in the accounts filed along with return of income. What power is available to the Commissioner in this respect?	S. 120(3)
o)	What are the grounds available to the Commissioner on which he can make best judgment assessment	S. 121(1)
p)	What are the grounds on which assessment can be amended or an amended assessment can be further amended	S. 122(5),(5A)
q)	The Additional Commissioner has passed an assessment order under 122(5A) to the tax payer. What is the power available to the commissioner in respect of this order	S. 122A
r)	The taxpayer has made an application to the Commissioner to issue to him an exemption certificate because he thinks that all of his income during the year is exempt from tax. The commissioner has refused to issue the same. What recourse is available to the taxpayer	S. 122B
s)	Commissioner income tax has recently come to know that Asim Shakoor has not filed his return of income for Ty 2009. The commissioner has issued him a notice to file the same within 30 days of receipt of notice. After receipt of notice Asim consulted with one of his friend Azhar Khan who told Asim "Don't worry, Commissioner is not justified in issuing the notice." Therefore, he has not responded to the notice. Please comment on Azhar's point of view.	Azhar is wrong because Commissioner is justified as per S. 114(4).

RECORDS AND AUDIT

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1. Records [Sec. 174]
2. Prescribed books of accounts [Rule 28-31]
3. General form of books of accounts, documents and records [Rule 32]
4. Books of account, documents and records to be kept at the specified place [Rule 33]
5. Audit [Sec. 177]
6. Special audit panel [Sec. 177]

CHAPTER 16
RECORDS AND AUDIT

Records [Sec. 174]

(1) Every taxpayer shall maintain in Pakistan prescribed accounts, documents and records.

(2) The Commissioner may disallow deduction if the taxpayer do not provides the record of the transaction.

(3) The accounts and documents shall be maintained for 6 years after the end of the tax year to which they relate. In case a proceeding is pending, record will be kept till the final decision.
Explanation: Pending proceedings include proceedings for assessment, appeal and any proceedings before an Alternative Dispute Resolution Committee.

(4) The "deduction" means any amount debited to trading account, manufacturing account, receipts and expenses account or profit and loss account.

(5) The Commissioner may require any person to install and use an Electronic Tax Register. It will be used for the purpose of storing and accessing information regarding any transaction that affects the tax liability.

Prescribed books of accounts [Rule 28-31]

S.No	Taxpayer required to maintain proper books of account, documents and records	Records to be kept
1.	Every taxpayer deriving income from business (General requirements applicable to all taxpayers deriving income from business)	• money received and expended and their details. • sales and purchases of goods and all services provided and obtained • all assets of the taxpayer • all liabilities of the taxpayer; and • in case of a taxpayer engaged in assembly, production, processing, manufacturing, mining or like activities, all items of cost relating to the utilization of materials, labour and other inputs. • The accounts and documents shall be maintained for 6 years after the end of the tax year to which they relate. In case a proceeding is pending, record will be kept till the final decision.
2.	Every taxpayer other than companies, deriving income chargeable under the head Income from business	
i.	Taxpayers with business income upto Rs. 500,000 and new taxpayers deriving income from business	• Serially numbered and dated cash-memo / invoice / receipt for each transaction of sale or receipt containing the following: (a) taxpayer's name or the name of his business, address, national tax number or CNIC and sales tax registration number, (b) the description, quantity and value of goods sold or services rendered; • Where each transaction does not exceed Rs. 100 one or more cash-memos per day for all such transactions • Daily record of receipts, sales, payments, purchases and expenses, a single entry in respect of daily receipts, sales, purchases and different heads of expenses; and • Vouchers of purchases and expenses.

ii.	Taxpayers with business income exceeding Rs. 500,000 and wholesalers, distributors, dealers and commission agents	• Serially. numbered and dated cash-memo / invoice / receipt for each transaction of sale or receipt containing the following: (a) taxpayer's name or the name of his business, address, national tax number or CNIC and sales tax registration number, (b) the description, quantity and value of goods sold or services rendered; and (c) in case of a wholesaler, distributor, dealer and commission agent, where a single transaction exceeds Rs. 10,000 the name and address of the customer Where each transaction does not exceed Rs.100 one or more cash- memos per day for all such transactions may be maintained • Cash book and/or bank book or daily record of receipts, sales, payments, purchases and expenses; a single entry in respect of daily receipts, sales, purchases and different heads of expenses. • General ledger or annual summary of receipts, sales, payments, purchases and expenses under distinctive heads. • Vouchers of purchases and expenses and where a single transaction exceeds Rs. 10,000 with the name and address of the payee; and • Where the taxpayer deals in purchase and sale of goods, quarterly inventory of stock-in-trade showing description, quantity and value.
iii.	Professionals like medical practitioners, legal practitioners, accountants, auditors, architects, engineers etc.	• Serially numbered and dated patient-slip / invoice /receipt for each transaction of sale or receipt containing the following: (a) taxpayer's name or the name of his business or profession, address, national tax number or CNIC and sales tax registration number, if any (b) the description, quantity and value of medicines supplied or details of treatment/ case/ services rendered (confidential details are not required) and amount charged (c) the name and address of the patient / client However the condition of recording address of the patient on the patient slip clause shall not apply to general medical practitioners • Daily appointment and engagement diary in respect of clients and patients provided that this clause shall not apply to general medical practitioners • Daily record of receipts, sales, payments, purchases and expenses; a single entry in respect of daily receipts, sales, purchases and different heads of expenses • Vouchers of purchases and expenses

iv.	Manufacturers (with turnover exceeding Rs. 2.5 million)	• Serially numbered and dated cash-memo / invoice /receipt for each transaction of sale or receipt containing the following (a) taxpayer's name or the name of his business address, national tax number or CNIC and sales tax registration number, (b) the description, quantity and value of goods sold (c) where a single transaction exceeds Rs. 10,000 the name and address of the customer • Cash book and/or bank book • Sales day book and sales ledger (where applicable) • Purchases day book and purchase ledger (where applicable) • General ledger • Vouchers of purchases and expenses and where a single transaction exceeds Rs. 10,000 with the name and address of the payee; • Stock register of stock-in-trade (major raw materials and finished goods) supported by gate in-ward and outward records and quarterly inventory of all items of stock-in-trade including work-in-process showing description, quantity and value.
3.	Every taxpayer deriving income chargeable under the head income from salary, property, capital gains or other sources	**Salary** • Salary certificate indicating the amount of salary and tax deducted there from: **Income from property** • Tenancy agreement, if executed • Tenancy termination agreement, if executed • Receipt for amount of rent received • Evidence of deductions claimed in respect of premium paid to insure the building, local rate, tax, charge or cess, ground rent, profit/interest or share in rent on money borrowed, expenditure on collecting the rent, legal services and unpaid rent. **Capital gain** • Evidence of cost of acquiring the capital asset • Evidence of deduction for any other costs claimed • Evidence in respect of consideration received on disposal of the capital asset. **Income from other sources** Dividends • Dividend warrants Royalty • Royalty agreement. Profit on debt • Evidence and detail of profit yielding debt • Evidence of profit on debt and tax deducted thereon, like certificate in the prescribed form or bank account statement; and • Evidence of Zakat deducted, if any. Ground rent from the sub-lease of land or building, income from the lease of any building together with plant or machinery and consideration for vacating the possession of a building or part thereof

		(a) Lease agreement (b) Lease termination agreement. Annuity or Pension Evidence of amount received. Prize money on bond, winning from a raffle, lottery or cross word puzzle • Evidence of income and tax deducted thereon, like certificate in the prescribed form. Provision, use or exploitation of property • Agreement Loan, advance, deposit or gift • Evidence of mode of receipt of a loan, advance, deposit or gift i.e., by a crossed cheque or through a banking channel. General • Evidence of deduction for any other expenditure claimed.

General form of books of accounts, documents and records [Rule 32]

(1) The books of accounts and records may be kept on electronic media, if safety measures are ensured.

(2) The books of accounts and records of a company shall be maintained in accordance with international accounting standards and as required under the Companies Act, 2017.

Books of account, documents and records to be kept at the specified place [Rule 33]

(1) Income from business

The books shall be kept at place where business is carried on. If it is carried on in more than one places, then records will be kept at the principal place or at each places if separate books are maintained for each place.

(2) Income from sources other than business

Where a person earns income other than business, the books shall be kept at person's residence.

(3) Place to be clearly stated on tax returns

The place where the books are kept shall be clearly stated on the tax return.

Audit [Sec. 177]

(1) The Commissioner may call for the documents (including books of accounts) maintained:
- under this Ordinance or
- any other law

for conducting audit of the income tax affairs of the person.

Where record is kept on electronic data, the person shall allow the Commissioner to use the machine and shall allow him access to the attested hard copies for investigation of taxpayer or of any other taxpayer.

The Commissioner shall not call for records/documents after expiry of 6 years from the end of the tax year to which they relate.

(2)
- After obtaining the records of a person or
- where necessary record is not maintained

the Commissioner shall conduct an audit of the income tax affairs (including examination of accounts and records, enquiry into expenditure, assets and liabilities).

(2A) Commissioner may conduct audit proceedings electronically through video link or other prescribed facility.

(2AA) **Audit on the basis of sectoral Benchmark Ratios prescribed by the Board [Section 177(2AA)]**

Where a taxpayer –

(a) has not furnished record or documents or books of accounts;

(b) has furnished incomplete record or books of accounts;

(c) is unable to give explanation of defects in records, documents or books of accounts;

it shall be considered that taxable income is not correctly declared and Commissioner shall determine taxable income on the basis of sectoral benchmark ratios (prescribed by the Board).

Explanation - The expression "Sectoral benchmark ratios" means standard business sector ratios notified by Board on basis of comparative cases (including financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and other prescribed ratios).

(6) After completion of the audit, the Commissioner may, after obtaining taxpayer's explanation on all the issues raised in the audit, issue an audit report containing audit observations and findings.

(6A) After issuing the audit report, the commissioner may, if considered necessary, amend the assessment (u/s 122) after providing an opportunity of being heard to the taxpayer.

(7) If a person has been selected for audit in a year he can also be selected for audit in next or following years.

(8) The Board may appoint a firm of Chartered Accountants or Cost and Management Accountants to conduct an audit of the income tax affairs of a person selected for audit by the Commissioner or the Board. The scope of audit shall be determined by the Board on a case to case basis.

(9) Any person employed as above may be authorized by the Commissioner to give notices to obtain information and to enter into premises.

(10) Where a person fails to produce before:

- the Commissioner or
- a firm of Chartered Accountants or Cost and Management Accountants,

the accounts, documents and records, electronically kept record, electronic machine or any other evidence, the Commissioner may proceed to make best judgment assessment (u/s 121) and assumed assessment shall have no legal effect.

Special audit panel

(11) The Board may appoint as many special audit panels as may be necessary, comprising 2 or more members from the following:-

(a) an officer or officers of Inland Revenue;
(b) a firm of Chartered Accountants;
(c) a firm of Cost and Management Accountants; or
(d) any other person including a foreign expert or specialist as directed by the Board,
(e) a tax audit expert deployed under an audit assistance programme of an international tax organization or a tax authority outside Pakistan.

to conduct an audit, including a forensic audit, of the income tax affairs of any person and scope of audit shall be determined by the Board or the Commissioner on case to case basis.

If a member is not an officer of Inland Revenue, the person shall only be included as a member in the special audit panel if an agreement of confidentiality has been entered into between the Board and the person, international tax organization or a tax authority.

(12) Special audit panel shall be headed by a Chairman who shall be an officer of Inland Revenue.

(13) Powers to enter into premises (u/s 175) and power to obtain information (u/s 176) for conducting an audit [under sub-section (11)], shall be exercised by an officer of Inland Revenue.

(14) Where a person fails to produce before the Commissioner or a special audit panel [under sub-section (11)] any accounts, documents and records, or any other relevant document, electronically kept record, electronic machine or any other evidence, the Commissioner may proceed to make best judgment assessment and assumed assessment shall have no legal effect.

(15) If any 1 member of the special audit panel, other than the Chairman, is absent from conducting an audit, the proceedings of the audit may continue, and the audit shall not be invalid.

(16) Functions performed by an officer of Inland Revenue shall be considered as having been performed by special audit panel.

(17) Board may prescribe the mode and manner of constitution, procedure and working of special audit panel.

ICAP PAST PAPER QUESTIONS

Question-1

Ayub Industries Limited has been selected for the audit of its income tax affairs. The management is of the opinion that since their tax affairs were audited last year also, they should not have been selected for audit this year.

Required:

Discuss the management's point of view in the light of Income Tax Ordinance, 2001. (2)

(Q.4 (b) September 2009)

Question-2

Under the provisions of the Income Tax Rules, 2002 list the records to be kept by a taxpayer in respect of his income from:

(i) Salary (01)
(ii) Property (1.5)
(iii) capital gain (1.5)

(Q.3 (d) March 2018)

Question-3

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, briefly explain the following:

a) Requirement of books of account to be maintained by a taxpayer who has business income upto Rs. 500,000. (04)
b) Provisions regarding Special Audit Panel. (05)

(Q.4 (a), (c) September 2019)

Question-4

Briefly explain the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder relating to requirement of books of account to be maintained by a manufacturer having turnover exceeding Rs. 2.5 million. (04)

(Q.4(b)(ii) March 2021)

ICAP PAST PAPER SOLUTIONS

Answer-1
If a person has been selected for audit in a year he can also be selected for audit in next or following years. [S.177(7)]
Therefore Ayub Industries Limited can be selected for audit in this year as well.

Answer-2
Following list of records are to be kept:

Salary
1. Salary certificate indicating the amount of salary and tax deducted there from.

Income from property
1. Tenancy agreement, if executed
2. Tenancy termination agreement, if executed
3. Receipt for amount of rent received
4. Evidence of deductions claimed in respect of premium paid to insure the building, local rate, tax, charge or cess, ground rent, profit/interest or share in rent on money borrowed, expenditure on collecting the rent, legal services and unpaid rent.

Capital gain
1. Evidence of cost of acquiring the capital asset
2. Evidence of deduction for any other costs claimed
3. Evidence in respect of consideration received on disposal of the capital asset.

Answer-3
a) The books of accounts required to be maintained by a taxpayer who has business income up to Rs. 500,000 are as follows:
   - Serially numbered and dated cash-memo / invoice / receipt for each transaction of sale or receipt containing the following:
     a) taxpayer's name or the name of his business, address, national tax number or CNIC and sales tax registration number,
     b) the description, quantity and value of goods sold or services rendered;
   - Where each transaction does not exceed Rs. 100 one or more cash-memos per day for all such transactions
   - Daily record of receipts, sales, payments, purchases and expenses, a single entry in respect of daily receipts, sales, purchases and different heads of expenses; and
   - Vouchers of purchases and expenses.

b) Refer S. 177 (11) to (17).

Answer-4
Following books of accounts are to be maintained by a manufacturers with turnover exceeding Rs. 2.5 million:
- Serially numbered and dated cash-memo / invoice /receipt for each transaction of sale or receipt containing the following:
  (a) taxpayer's name or the name of his business address, national tax number or CNIC and sales tax registration number,
  (b) the description, quantity and value of goods sold
  (c) where a single transaction exceeds Rs. 10,000 the name and address of the customer
- Cash book and/or bank book
- Sales day book and sales ledger (where applicable)
- Purchases day book and purchase ledger (where applicable)
- General ledger
- Vouchers of purchases and expenses and where a single transaction exceeds Rs. 10,000 with the name and address of the payee;
- Stock register of stock-in-trade (major raw materials and finished goods) supported by gate in-ward and outward records and quarterly inventory of all items of stock-in-trade including work- in-process showing description, quantity and value.

EXEMPTIONS IN SECOND SCHEDULE

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CHPATER 17
EXEMPTIONS IN SECOND SCHEDULE

PART - I
EXEMPTIONS FROM TOTAL INCOME

(24) Any benevolent grant paid from the Benevolent Fund to the employees or their family members.
(25) Any payment from an approved superannuation fund made on the death of a beneficiary.
(26) Any income received by him as a worker from out of the Workers Participation Fund.

GENERAL THEORY QUESTIONS BY ICAP

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CHAPTER 18
GENERAL THEORY QUESTIONS BY ICAP

SOME ASSUMPTIONS

Note: It is for guidance purpose only you may use your own language

Scenario	Treatment	Note Required
Where full time teacher allowance is to be given to a taxpayer along with credits available u/s 61-63	Priority: • full time teacher allowance will be given and • then the tax credit u/s 61-63 will be calculated.	There is a difference of opinion over the priority as to whether full time teacher allowance should be given first or credit available u/s 61-63 is. In the solution priority is given to full time teacher allowance

ICAP PAST PAPER QUESTIONS

Question-1

Explain the correct tax treatment in each of the following situations:

(i) In 2003, Mr. Hamid inherited a rare sculpture of Buddha which had a FMV of Rs. 200,000 on the date of inheritance. In February 2012, the sculpture was sold by him at Rs. 500,000.

(ii) In July 2011, Mr. Yahya entered into an agreement for sale of his residential plot to Mr. Moosa, who paid an advance of Rs.500,000. According to the agreement, Mr. Moosa was required to pay the balance by February 28, 2012. However, instead of paying the balance amount, he terminated the sale agreement. Mr. Yahya forfeited the advance of Rs.500,000 in accordance with the terms of the agreement.

(iii) In September 2011, Mr. Saleem sold his personal car, Toyota Corolla, to one of his cousins at a price of Rs.50,000 whereas the FMV of the car was Rs.200,000 .The car was purchased by him in the year 2005 at a cost of Rs.300,000.

(iv) Mr. Ibrahim was working as a Chief Financial Officer in Dawood Pakistan (Pvt.) Ltd, which is a wholly owned subsidiary of Dawood AG. Germany. According to Company's policy, Mr. Ibrahim was sent on secondment to Germany on January 1, 2012 for a period of five years. During this period, half of his salary will be credited to his bank account in Pakistan, whereas the remaining portion will be received by him in Germany.

(10)

(Q.2 (a) March 2007)

Question-2

There are various situations in the Income Tax Ordinance, 2001 when the rules applicable to Companies are different from those applicable to other taxpayers. Briefly discuss the differences in the tax laws for an Individual and a Company in the following case of method of accounting.

(2)

(Q.5 (b) March 2008)

Question-3

Mr. Henry is a UK national and provides independent consultancy services in his individual capacity, to United Autos Ltd, a Pakistani company. Mr. Henry has entered into a contract with the company. The company's accountant has treated payments under this contract as being under an employment contract with the company. Mr. Henry stayed in Pakistan for eight months during the year. During the said period, he was only involved in providing in-house independent consultancy services to different departments of the Company. Mr. Henry is of the view that:

(i) Being a UK national, he will be a non-resident for Pakistan tax purposes;

(ii) His income from consultancy services provided by him under the contract of employment should be classified as `fees for technical services' and shall be chargeable to tax at 15% of the gross amount of the consideration received by him;

(iii) No tax was deducted from his remuneration. However, United Autos deposited an amount of Rs.275,000 in the government treasury on his behalf. Mr. Henry believes that tax deposited on Mr. Henry's behalf does not attract any additional tax incidence for him as he has not received the amount in cash, from the company.

(iv) Since his remuneration was agreed to be paid in Pound Sterling, the rate of conversion for tax purpose shall be the rate applicable on the date of agreement. Any increase in value of Pound Sterling against Pakistan Rupee should be non-taxable.

Briefly explain whether or not Mr. Henry's assumptions in (i) to (iv) above are in accordance with relevant provisions of the Income Tax Ordinance, 2001.

(8)

(Q.3 (a) September 2008)

Question-4

After completion of the audit of Chandi Enterprise (CE) under the Income Tax Ordinance, 2001, the Commissioner has ordered the following amendments in the income tax return filed by CE.

Disallowance of the following expenditures:

- Rs. 27,000 spent on Annual Eid-Milan Party arranged by the firm for its employees and their families.
- Penalty for late delivery amounting to Rs. 60,000 which had to be paid to a client on account of negligence on the part of the Shipment Manager.
- Donation of Rs. 150,000 paid to the National Institute of Cardio Vascular Diseases (NICVD), established by the Federal Government.
- Salary of Rs. 850,000 paid to the Managing Director, who is also a partner in the firm.

Required:

Comment on the above amendments ordered by the Commissioner, in the light of Income Tax Ordinance, 2001. **(10)**

(Q.6 (a) March 2012)

Question-5

Mr. Baqir was working in Pakistan Embassy in United Kingdom for the past ten years. He returned back to Pakistan five months back and is now working with a British conglomerate in Islamabad. He is in the process of filing his return of income for tax year 20X5 and has sought your advice on the following matters:

(i) Whether I would be a non-resident for tax year 2015 as my period of stay in Pakistan is less than 183 days under the Income tax Ordinance, 2001? **(2)**

(ii) Whether I would be required to file a wealth statement and what particulars should I disclose in the statement under the provisions of the Income Tax Ordinance, 2001? **(5)**

(iii) I jointly with my brother Owais own a two story house in Lahore. Each story of the house has been rented out to two separate families. What would be the tax treatment of income from such property under the Income Tax Ordinance, 2001? **(2)**

(Q.3 (a) September 2015)

ICAP PAST PAPER SOLUTIONS

Answer-1

i) As sculpture is a capital asset so the gain arising on the disposal is chargeable under the head capital gain. The gain will be computed as follows:

Consideration received	500,000
Less: Cost (FMV on the date he inherited the asset)	(200,000)
Total Gain	300,000

Gain of Rs. 225,000 (300,000 x 75%) is chargeable as the holding period is more than one year.

ii) Any forfeited deposit in respect of sale of land or building is chargeable as separate block property income. Therefore Rs. 500,000 is taxable in the hands of Mr. Yahya in TY 2012.

iii) Personal moveable property is not a capital asset as per the definition of capital asset, therefore loss arising on the disposal of car will not be allowed as deduction under any head of income.

iv) Salary earned from January 1, 2012 till June 30, 2012 is foreign source income as the employment is exercised outside Pakistan irrespective of the fact that where the salary is credited. Assuming him to be a citizen of Pakistan, as he has left Pakistan during the year and he is still abroad at the end of TY 2012 so his foreign source salary income is exempt from tax [S. 51(2)].

Answer-2

i) **Method of accounting:** A company shall account for income chargeable to tax under the head "Income from Business" on an accrual basis, while individual may account for such income on a cash or accrual basis. [S.32(2)]

Answer-3

i) Residential status [S.82] is determined on the basis of number of days a person is present in Pakistan and it has nothing to do with nationality. Therefore, as Henry's stay in Pakistan is more than 183 days in the tax year, therefore he will be considered as resident individual.

ii) Though he is rendering technical services, yet his income is not chargeable @ 15% of gross amount of the consideration received because this rate is applicable for non-residents only. [Sec. 6]

iii) No, this benefit attracts tax incidence because as per the provisions of law where an amount is applied on behalf of an individual, it is treated as received by the individual. Therefore Henry has to pay tax on this amount.[S.12(1)]

iv) As per the provisions of law, where an amount is in a currency other than rupees, conversion shall be at the State Bank of Pakistan rate prevailing at the date at which the amount is taken into account. Therefore the date of agreement in this case is not relevant.

Answer-4

- Any entertainment expenditure incurred for the purpose of business is an allowable deduction, so in this case the Commissioner has no right to amend it.[S.21(d)] [Rule 10 of Income Tax Rules, 2002]
- Any fine or penalty paid by the person for the violation of any law, rule or regulation is not allowed as deduction under the head "Income from Business". However in the given scenario the penalty does not relate to violation of any law, rule or regulation so it is an allowable expense.[S.21(g)]
- A person shall be entitled to a tax credit for any amount paid by the person in the tax year as a donation to any educational institution, hospital or relief fund established or run in Pakistan by Federal Government. Therefore Commissioner is justified in making amendment that it is not an allowable deduction. However a tax credit will be allowed for it as enumerated above. [S.61]
- Any profit on debt, brokerage, commission, salary or other remuneration paid by an association of persons to a member of the association is not allowed as deduction under the head "Income from Business". Therefore Commissioner is justified in making amendment that salary paid to Managing Director is not an allowable deduction. [S.21(j)]

Answer-5

i) As per S.82

"An individual shall be a resident individual for a tax year if the individual is an employee or official of the Federal Government posted abroad in the tax year.

So, Mr. Baqir you would not be a non-resident person despite of the fact that your stay in Pakistan is less than 183 days because you were an employee of Federal Government posted abroad.

As per S.116(2)

ii) Every resident individual shall furnish a wealth statement and wealth reconciliation statement along with his return therefore Mr. Baqir you are required to furnish the same.

As per S.116 (1), wealth statement shall contain following particulars:

a) The total assets and liabilities of the person, his spouse, minor children and other dependents on the date specified in the notice.

b) Assets transferred by the person to any other person during the period specified in the notice and the consideration for transfer.

c) The detail of expenditure incurred by the person, his spouse, minor children and other dependents during the period specified in the notice and

d) Wealth reconciliation statement

iii) As per S. 66 where any property is owned by two or more persons and their respective shares are definite and ascertainable.

a) the persons shall not be assessed as an AOP in respect of property and

b) The share of each person in income from property for a tax year shall be taxable in their own hands respectively and not as AOP.

Therefore, Mr. Baqir if you and your brother's share are definite, you will pay tax separately.

OTHER QUESTIONS

Question-1

a) A company is going to wound up in TY 2011. A shareholder named Mr. Asim is going to receive 5 tola gold whose market value is R.50,000/tola as his final share. His original investment was Rs. 130,000. How the whole amount received will be taxed in the hands of Asim and company.	Rs. (50,000x5) – 130,000 will be considered as dividend for Asim.
b) In tax year 2013 Asim disposed off all the gold for Rs. 430,000. Calculate gain/loss?	Rs. (430,000 – 250,000) x 75 % will be capital gain.
c) True/False	
(i) Income from lease of building together with plant or machinery is chargeable under the head Income from property.	F
(ii) No deduction is allowed under the head income from other source.	F
(iii) Depreciation expense is only allowed as deduction under the head income from business.	F
(iv) Loan received from a person not holding NTN if received through cross cheque is considered as IFOS.	F
(v) Loan received from person not having NTN if received in cash is considered as IFOS.	T
(vi) Gift received from uncle in cash is not considered as income.	F
(vii) Loss arising to an AOP can be adjusted against members income.	F
(viii) AOP cannot carry forward its own business loss.	F
(ix) AOP can set off the loss of its member against its own income.	F
(x) Capital loss can be set off against business gain	F
(xi) Business loss can be set off against capital gain	T
(xii) No loss can arise in salary.	T
(xiii) No loss can arise under securities.	F
(xiv) Income from other source loss can be carried forward till 6 years.	F
(xv) Foreign source loss from business can be adjusted against foreign source income under other head.	F
h) Explain the two independent provisions of law where loan is considered to be an income?	[Sec. 39 (3)] IFOS

Also specify the head under which it falls?	and loan received by shareholder of private company is treated as dividend income.

Question-2

a) Under what conditions bad debt will be allowed as deduction? (3)

b) What is the tax treatment of benefit received against a trading liability which has been allowed as deduction in previous year? (2)

d) Mr. FM owns a shopping centre. He has received an advance amounting to Rs. 300,000 from a customer for supply of a special type of hair gel. After receiving the cash, Mr. FM's accountant contacted the customer in order to know his National Tax Number but unfortunately, his customer had no such number. According to the accountant the amount being an advance will be treated as "Income from Other Source" under the provisions of sub-section (3) of section 39 of the Income Tax Ordinance, 2001. Mr. FM is much worried as the advance has been received in cash and his customer has no National Tax Number. Please state whether the transaction can be treated as income or otherwise. (2)

Answer-2

(a) [Sec. 29(1)]

(b) [Sec. 34 (5A)]

(c) It will not be chargeable under the head IFOS because it is an advance for supply of goods. [Sec. 39(3)]

Question-3

1. What is the tax treatment of interest received by a non-resident in respect of securities issued widely by a resident person outside Pakistan	S. 46
2. Can exemption available to a single person be extended to another person	S. 55
3. Mr. John a resident person is living in Pakistan since last two years standing on June 30, 2011 because he got a job in a local subsidiary of his foreign employer. Please comment on the income earned by him in Pakistan from salary and income earned by him in foreign country from business? Will your answer in the above case differ if he brings the foreign source income in Pakistan?	Pakistan source income in both cases is taxable as he is resident person. FSI in first case exempt. [S. 50(1)] FSI in 2nd case chargeable.[S. 50(2)]
4. Can foreign loss be set off against Pakistan source income?	No

Question-4

a) In how much time appeal effect order should be passed by Commissioner? (2)

b) Ali an individual purchases 100 shares of an unlisted public company Rs.100,000 on 01.07.1997. He sold these shares on 01.08.2008 for Rs.200,000 and paid commission of Rs.5,000 to the broker. His other income for the period under consideration amounted to Rs.60,000. Calculate the amount of total income. (3)

Answer-4

a) S.124(1)

b)

	Rs
Capital gain (200,000-100,000-5,000) x 75%	71,250
Other Source	60,000
Total Income	**131,250**

LECTURE-NOTES

1. Discussion of gain on disposal of building:
   - Separate block (not used in business)
   - Income from business (used in business)
2. Signing amount is another name of non-adjustable in IFP [S. 16]
3. Concept of payment of expense by tenant in IFP (assume if tenant pays repair expense or property tax of house himself from his own pocket it will also be added in income from property)
4. Ch.4 What are different tax regiemes (FTR/PTR= Gross income basis)
5. Rules in income tax [Income tax Rules, 2002]
6. **How to solve scenario based question**
   - Reproduce law
   - Refer scenario
   - Negation of his view point
7. Which questions to attempt first in paper
8. Order of preparation in exam leaves
9. How to prepare theory
10. Which rates are given in paper

NUMERICALS INCOME TAX

19

CHAPTER 19
NUMERICALS INCOME TAX
ICAP PAST PAPER QUESTIONS

Question-1

Mr. A is the Chief Executive of a multinational private company. Details of his emoluments are as follows:

		Rs.
a)	Basic salary	4,004,520
b)	Bonus	1,980,642
c)	Utility allowance	400,452
d)	Leave encashment	538,083
e)	Other allowance	90,000
f)	House rent allowance	1,802,040

Apart from the above he has received Director's Fee amounting to Rs.52,000

During the year he has sold shares that were acquired through exercise of a `Stock Option' (being the shares of a UK company) two years ago. The gain on sale amounts to Rs.4,206,000.

He also owns a property which has been let out on rent. The details of rent received and expenses incurred are as follows:

(a) Rent Rs.10,000 per month. The property was let out on rent for the whole year.
(b) He has paid property tax amounting to Rs.11,500.
(c) During the year he has paid Rs.6,000 for repairs and maintenance.

During the year the tax withheld at source from salary income is Rs.3,600,000

Required: You required to compute the taxable income and tax liability for the tax year. **(17)**

(Q.15 September 2004)

Question-2

Mr. "B" is the Chief Executive of a Multinational Company. Details of his emoluments are as follows:

		Rs.
(a)	Basic Salary	8,800,000
(b)	Bonus	5,000,000
(c)	Utility allowance	880,000
(d)	Relocation allowance	200,000

Apart from the above he is provided with the following perquisites / benefits:

(i) A free unfurnished accommodation by the employer with land area of 2100 sq. yds.
(ii) Motor vehicle for both private and official use, cost of acquisition of which was Rs.2,000,000.
(iii) Children education fees for the year Rs.105,000
(iv) House servant salaries for the year Rs.230,000

According to the terms of employment the tax liability of Mr. ``B'' amounting to Rs. 2,976,000. Tax liability on other remuneration is borne by himself.

Mr. "B" also owns a property which was let out on rent for a part of the year details of income and expenses incurred are as follows:

(a) Rent Rs.50,000 per month.
(b) The property was let out on rent from December 2011 to June, 2012.
(c) Property tax paid Rs.35,000.

During the year the following information was also provided:

		Rs.
(a)	Tax deducted from salary income	4,541,250
(b)	Tax paid by the employer	2,976,000

Required: You are required to compute the taxable income and tax liability for the tax year 2012. **(22)**

(Q.15 March 2005)

Question-3

Mr. Imran is a citizen of Pakistan. During the first nine months of the tax year, he worked as financial controller of a Pakistan based subsidiary of a multinational group. After that he was transferred and employed as Head of Finance of the UAE based subsidiary of the Group. Mr. Imran's family stayed in Dubai throughout the year. The detail of income earned by him during the year is given below:

From the UAE company

Mr. Imran earned US $ 30,000 during the three-month's employment in the UAE. No tax is deducted from salary earned and paid in the UAE.

To relocate Mr. Imran in UAE, the UAE Company incurred one time miscellaneous cost of Rs.100,000 to move the household items of Mr. Imran from Pakistan to Dubai.

From Pakistan subsidiary

a) Basic salary Rs.500,000 p.m.
b) Medical allowance Rs.45,000 p.m. (no free medical or hospitalization facility is given to Mr. Imran under the terms of employment).
c) The company has provided Mr. Imran a TV and VCR costing Rs.40,000 on which the company charges depreciation @ 20% in its books of accounts.
d) Company has provided interest free loan to Mr. Imran amounting to Rs.5 million which remained outstanding throughout his employment with the company (Pakistan subsidiary).
e) His family's housing cost in Dubai, borne by the company amounts to Rs.30,000 p.m.
f) Mr. Imran's travelling and related cost borne by the Pakistan subsidiary to meet his family, amounts to Rs.30,000 p.m.
g) During the employment with the Pakistan subsidiary, Mr. Imran had exercised option to acquire 300 shares of the parent company @ US $ 8 per share. At the time when the option was exercised, the value of the share was US $ 10 (Rs.580) per share. Furthermore, during the year Mr. Imran sold 200 options previously received by him at a price of US $ 3 per option (Rs.171) after holding it for more than a year. Neither the Pakistan subsidiary nor Mr. Imran incurred any cost in this regard.

Required: Compute the taxable income of Mr. Imran for the tax year 2012 based on the data provided above. **(16)**

(Q.2 September 2005)

Question-4

Ms. Fatima Hassan was working as a Marketing Head with Consumer Products Ltd (CPL) at following emoluments:

(i)	Basic Salary	Rs.100,000 per month
(ii)	House rent allowance	Rs.40,000 per month
(iii)	Utilities allowance	Rs.15,000 per month

In addition to the above cash emoluments, she was provided with a Honda Civic car, exclusively for official use. The cost of car to the Company was Rs.1,000,000. As per company's policy, the car was sold to Fatima in January 2012 at the WDV of Rs.100,000 whereas the FMV of the same at the time of sale was Rs.300,000.

In May 2012, Ms. Fatima Hassan was approached by Pharma Industries (Pvt.) Ltd (PIL). They offered her employment at a higher salary and some extra benefits, along with a one time payment of Rs.200,000 as an inducement to accept their offer. Fatima accepted PIL's offer by resigning from CPL w.e.f. June 1, 2012. She joined PIL from July 1, 2012. The amount of Rs. 200,000 was, however paid to her on June 29, 2012.

During the year, Ms. Fatima Hassan has also undertaken the following transactions:

(i) Shares in Queens Pakistan (Pvt.) Ltd were sold for Rs.500,000. These shares were acquired in the year 2006 at a cost of Rs.200,000.

(ii) A residential plot inherited in the year 2001 was sold for Rs.1,000,000. The FMV of the plot at the time of inheritance was Rs. 200,000.

(iii) A painting purchased at a cost of Rs.100,000 was sold for Rs.75,000.

(iv) An amount of Rs.50,000 was donated to an approved charitable institution.

Required: In the light of above information, compute the taxable income of Ms. Fatima for tax year 2012 by giving brief explanation for the items not included in the taxable income. (15)

(Q.1 March 2006)

Question-5

Mr. Dollar has been working as a senior engineer in a local company. The detail of his monthly emoluments is as under:

	Rs.
Basic salary	100,000
Medical allowance	15,000
Utilities allowance	10,000

In addition to the above cash emoluments, he is entitled to the following perquisites:

(i) A car for his personal and official use, having cost of Rs.700,000 to the employer.

(ii) Rent free accommodation having monthly rent of Rs.20,000 or cash in lieu thereof. However he has opted to take rent free accommodation.

Required: Compute the tax to be deducted each month, from his salary for tax year. **(10)**

(Q.2 (b) September 2006)

Question-6

Mr. Ayub, after retirement from a multinational company as a senior executive, was rehired on contract for a period of three years. However, due to certain reasons, the contract was prematurely terminated six months earlier i.e. on 31.12.2011.

The details of emoluments received by him during TY 2012 are given below:

	Rs.
Basic salary (per month)	70,500
Fair market Rent of furnished accommodation (per month)	60,000
Utilities allowance (per month)	12,000
Medical benefits reimbursed during the year	25,000

House rent was paid by the company directly to the landlord. Medical benefits were reimbursed against bills submitted by Mr. Ayub.

On his retirement as a permanent employee, he had been paid gratuity from the approved fund. According to the rules of the fund, he was also entitled to a special gratuity in lieu of his services rendered under the contract. Accordingly, an amount of Rs.120,000 was also paid out of the fund, on termination of the contract.

In lieu of premature termination, the following additional benefits were allowed to Mr. Ayub:

(i) A compensation for early termination of Rs.150,000 was paid.

(ii) Mr. Ayub had obtained an interest free loan of Rs.200,000 on July 1, 2011 which was payable in lump sum on March 31, 2012. 25% of the outstanding balance was waived and remaining amount of loan was deducted from his final settlement.

(iii) He was allowed to retain a 1600cc car which was in his use at accounting book value of the car was Rs.650,000. The FMV of the car at the time of settlement was Rs.700,000.

Required: Compute the taxable income for TY 2012. **(14)**

(Q.1 September 2007)

Question-7

Mr. Ali Raza is working as a senior Executive in DD Pakistan Ltd. The detail of his income / receipts during the year is as follows:

(i) He received basic salary of Rs.65,000 per month.

(ii) He was provided with furnished accommodation for which DD Pakistan Ltd paid a rent of Rs.25,000 per month.

(iii) A company owned car was provided to him which was used partly for official and partly for private purpose. The car was purchased at a cost of Rs.500,000 but had a fair market value of Rs.520,000.

(iv) Medical allowance of Rs.150,000 was paid to him during the year. The actual medical expenses incurred by him amounted to Rs.40,000.

(v) He earned an income of Rs.45,000 on the sale of jewelery but incurred a loss of Rs.28,000 on sale of an antique. Holding period of jewellery is less than 1 year.

(vi) An apartment owned by him was rented on July 1, 2007 at a monthly rent of Rs.30,000. He received a non-adjustable security deposit of Rs.100,000 which was partly used to repay the non-adjustable security deposit received from the previous tenant in July 2005, amounting to Rs.70,000.

(vii) He incurred the following expenses on the apartment:

	Rs.
- Repairs	8,000
- Share of rent to House Building Finance Corporation	15,000

(viii) Provident fund was deducted @ 12% of his basic salary. An equal amount was contributed by the company.

(ix) Tax deducted by the company amounted to Rs.170,000.

Required: Compute his taxable income, total tax payable and tax payable with the return. **(15)**

(Q.1 September 2008)

Question-8

Mr. Manto worked as an employee in Berlin Hotel, Germany for a period of five years. During the said period he did not visit Pakistan for a single day. He returned to Pakistan on July 1, 2008 and immediately joined as a General Manager in a well-reputed hotel, based in Karachi.

Assume that the details of his income for the tax year 2009 are as follows:

(i)	Basic salary (per month)	100,000
(ii)	House rent allowance (per month)	30,000
(iii)	Medical allowance (per month)	10,000

(iv) Besides medical allowance, he is also entitled to free medical treatment at approved hospital.

(v) He has been provided a company maintained 1600cc car which was used partly for official and partly for personal purposes. The hotel has leased the car from a bank. The gross lease rentals payable over the period of lease amount to Rs.2,700,000. The fair market value of the car at the time of lease was Rs.2,000,000. The total lease rentals paid by the hotel during the year amounted to Rs.800,000.

(vi) He is entitled to lunch at the hotel's restaurants where the usual charges are Rs.400 per person. He is entitled to concessional rate of Rs. 40 per day which is deducted from his salary. Assume that there are 300 working days in the year.

(vii) He went for a training course to Islamabad where boarding and lodging cost amounting to Rs.150,000 was borne by the hotel. He incurred a further expense of Rs.125,000 which was reimbursed by the hotel.

(viii) Provident fund was deducted @ 10% of his basic salary. An equal amount was contributed by the hotel. Interest credited to his provident fund account amounted to Rs.48,000.

(ix) As per terms of employment agreed with Mr. Manto, tax payable on salary will be borne by the hotel.

(x) During the year, he earned income from other source of Rs. 100,000.

(xi) On July 15, 2008, he received a lump sum amount of Rs.4,000,000 through a normal banking channel as final settlement from Berlin Hotel.

(xii) On August 1, 2008, he inherited 25,000 shares of a private limited company. The estimated fair market value of the share, on the date of inheritance, was Rs. 42 per share. He sold all the shares on February 28, 2009 at Rs. 62 per share.

(xiii) He paid Zakat amounting Rs.200,000 to an approved organization, through cross cheque.

Required:

(a) Compute Mr. Manto's taxable income and tax payable for the tax year 2009.

(b) Briefly explain the treatment of items which are not considered in the above computation. **(18)**

Question-9 **(Q.1 March 2009)**

Mr. Zulfiqar, a senior executive of Mirza Petroleum Ltd (MPL), retired on March 31, 2009 after completion of 19 years of dedicated service. The details of Mr. Zulfiqar's income for TY 2009 are given below:

Income from MPL

(i) Monthly remuneration:

	Rs.
Basic salary	280,000
Medical allowance	45,000
Utilities allowance	45,000
Cost of living allowance	25,000
Total monthly salary	395,000
Market value of rent free accommodation provided	90,000

(ii) As per terms of employment, tax liability of Mr. Zulfiqar to the extent of Rs.200,000 is to be borne by MPL.

(iii) On his retirement, he received gratuity of Rs.2,660,000 from an unrecognized gratuity fund maintained by MPL.

(iv) He is receiving pension amounting to Rs.50,000 per month from the date of his retirement.

Other Information

(v) He is also receiving pension amounting to Rs.12,000 per month from a multinational company where he worked from 1975 to 1990.

(vi) A plot inherited in 1998 from his father was sold for Rs.5,000,000. Fair market value of the plot at the time of inheritance was Rs.1,000,000.

(vii) On January 1, 2009, he rented out one of his residential bungalows to a private school for Rs.100,000 per month and received advance rent for two years.

(viii) Rs.500,000 were invested in new shares offered by a listed company.

(ix) He paid mark up amounting to Rs.250,000 on a house loan obtained from a scheduled bank.

(x) He incurred a loss of Rs.20,000 on sale of a painting.

Required:

(a) Compute taxable income and tax liability of Mr. Zulfiqar for the TY 2009.

(b) Briefly comment on the items which are not considered in the above computation. **(21)**

(Q.1 September 2009)

Question-10

Mr. Zameer Ansari is working as a Chief Executive Officer in Wimpy (Private) Limited (WPL). Following are the details of his income / receipts during the tax year 2010:

(a) His monthly cash remuneration in WPL is as follows:

	Rupees
Basic salary	200,000
Medical allowance	30,000
Utilities allowance	10,000

(b) In addition to the above, he was also provided the following benefits in accordance with his terms of employment:

- (i) Medical insurance for hospitalization and surgery, limited to Rs. 1,500,000 per annum.
- (ii) Payment of his children's school fees of Rs. 15,000 per month. The fee is deposited directly into the school's bank account.
- (iii) Rent free furnished accommodation on 1000 square yards. The accommodation is located within the municipal limits of Karachi.
- (iv) Two company-maintained cars. One of the cars was purchased by WPL for Rs. 3,000,000 and is exclusively for his business use. The second car was obtained on lease on February 1, 2009 and is used partly for official and partly for personal purposes. The fair market value of the leased vehicle at the time of lease was Rs. 1,800,000.
- (v) Leave encashment amounting to Rs. 100,000 was paid to Mr. Zameer on July 5, 2010.
- (vi) An amount equal to one basic salary was paid by WPL to an approved pension fund.

(c) Mr. Zameer had received 15,000 shares of WPL on December 1, 2006 under an employee share scheme. He had the option to transfer the shares on or after January 1, 2009. However, he sold all the shares on April 1, 2010.

Fair value of the shares was as follows:

- Rs. 35 per share on December 1, 2006
- Rs. 42 per share on January 1, 2009
- Rs. 48 per share on April 1, 2010

(d) An apartment owned by Mr. Zameer was rented on July 1, 2009 to Mr. Abdul Ghaffar at a monthly rent of Rs. 22,000. He received a non-adjustable security deposit of Rs. 150,000 which was partly used to repay the non-adjustable security deposit amounting to Rs. 90,000 received from the previous tenant in July 2007. He also incurred Rs. 20,000 on account of repairs to the apartment.

(e) The bank withheld Zakat amounting to Rs. 250,000.

(f) Tax deducted at source from his salary, amounted to Rs. 650,000.

Required:

Compute the taxable income, tax liability and tax payable by Mr. Zameer Ansari for the tax year 2010. **(21)**

(Q.1 September 2010)

Question-11

Mr. Mateen was employed with Melody Limited (ML) as an event organizer. On June 30, 20X1 he resigned from his employment without completion of notice period. On July 01, 20X1 he joined another company Rock Star Limited (RSL) as a senior event organizer. Following information is available relating to his assessment for the tax year 20X2:

(a) On July 01, 20X1 RSL paid Rs. 280,000 to ML as compensation in lieu of un-served notice period by Mr. Mateen.

(b) On July 15, 20X1 Mr. Mateen received a gratuity of Rs. 350,000 from an unrecognized gratuity fund maintained by ML. He also received Rs. 150,000 as leave encashment.

(c) In accordance with the terms of his employment with RSL, Mr. Mateen was provided with the following emoluments / benefits during the tax year 20X2:

- (i) Basic salary of Rs. 245,000 per month and utility allowance of Rs. 21,000 per month.
- (ii) A reimbursement of personal medical expenses up to 15 % of the annual basic salary and Rs.250,000 on account of hospitalization charges of his daughter were made after procuring hospital bills showing the national tax number of the hospital. These bills were also attested and certified by RSL.
- (iii) For the first two months of his employment, a pick and drop facility was provided to Mr. Mateen at a monthly rent of Rs. 25,000. On September 01, 20X1 RSL provided a company maintained 1300 cc car which was partly used for private purposes. The cost of the car was Rs. 1,500,000.
- (iv) Monthly salary of Rs. 6,000 was paid to Mr. Mateen's house keeper. Mr. Mateen however, reimbursed 20% of the house keeper's salary to RSL.
- (v) A special allowance of Rs. 50,000 was paid to meet expenses necessarily to be incurred in the performance of his official duties. Actual expenditure was Rs. 40,000.
- (vi) On January 01, 20X2, he was provided an interest free loan of Rs. 1,500,000. The prescribed benchmark rate is 10% per annum.
- (vii) A commission of Rs. 500,000 was paid for introducing new clients to the company. Withholding tax was deducted by RSL at the rate of 10% from such payments.
- (viii) The tax deducted at source from his salary by RSL for the tax year 20X2 amounted to Rs.550,000.

(d) Apart from his employment with RSL, Mr. Mateen also organized events for private clients. He received a total of Rs. 1,000,000 from such clients. However, he incurred an overall loss of Rs. 350,000 on organizing these events.

(e) On May 31, 20X2 he received Rs. 180,000 from Mr. Ali as consideration for vacating his bungalow.

(f) He also received a share of profit from a business in Malaysia equivalent to Pak. Rs. 535,000. He paid Rs.130,000 in taxes in Malaysia on such income.

(g) Mr. Mateen acquired 10,000 shares of a listed company from the Privatization Commission of Pakistan at a price of Rs. 100 per share on May 31, 20X1. He was allowed a tax credit of Rs. 100,000 in tax year 20X1 against this investment. On May 20, 20X2 he sold all the shares for Rs. 1,000,000.

(h) He paid Zakat of Rs. 250,000 to an approved organization, through cross cheque.

Required:

Compute the taxable income, tax liability and tax payable / refundable, if any, by Mr. Mateen for the tax year 20X2.

(20)

Question-12 **(Q.1 March 2011)**

Mr. Khursheed, a Pakistani national, was employed as the chief financial officer in Zulfiqar Gas Company (ZGC), since 1992. Following information pertains to his income for the tax year 2022:

(i) **Income from ZGC**

Khursheed was employed with ZGC up to 31 December 2021. During this period he received the following emoluments:

- Basic salary of Rs. 400,000 per month, medical allowance of Rs. 75,000 per month and utility allowance equivalent to 10% of basic salary
- A company-maintained car for official and private use. The car was purchased two years ago at a cost of Rs. 5 million According to the company's policy; ZGC deducted Rs. 10,000 per month from his salary, for private use of the car.

On 31 July 2021, Khursheed had undergone a major surgery and incurred an expenditure of Rs. 1,500,000. ZGC reimbursed the entire amount as a special case as it was not covered under the terms of employment.

Due to poor health, Khursheed opted for early retirement on 31 December 2021 under the company's voluntary retirement scheme. He received the following benefits on his retirement:

- Rs. 7,500,000 as a golden handshake under the voluntary retirement scheme.
- Rs. 9,100,000 from an unapproved gratuity fund maintained by ZGC.
- Transfer of company's car for Rs. 2,600,000. The amount was deducted from his final settlement. The fair market value of the car as of 31 December 2021 was Rs. 2,800,000.

The tax deducted at source for the tax year 2022 amounted to Rs. 3,750,000.

(ii) **Other Information**

- On 1 January 2022, Khursheed commenced business of marketing of horticultural plants and related items. However, due to intense competition, he had to wind-up this venture on 31 May 2022. During this period, he had incurred a loss of Rs. 750,000.
- He purchased 5,000 shares for Rs. 500,000 from initial public offering of a new listed company on 1 June 2021. He claimed a tax credit of Rs. 60,000 on such investment, against the tax payable for the tax year 2021. On 15 June 2022, he sold these shares for Rs. 700,000.
- He incurred a loss of Rs. 500,000 on the sale of his shareholdings in a private limited company.
- He sold his personal car at a profit of Rs. 300,000.
- On 1 March 2022, he purchased an apartment for Rs. 5,000,000. On 1 April 2022, he rented out the flat to Mr. Abdul Sattar at a monthly rent of Rs. 25,000 and received advance rent for eight months.
- His average tax rate for the preceding three years is 5%;
- He paid zakat under Zakat & Ushr Ordinance amounting to Rs. 127,500.

Required:

(a) Compute the amount of taxable income, tax liability and tax payable / (refundable), if any, for the tax year 2022. **(13)**

(b) Briefly comment on the items which are not considered by you in the above computation. **(6)**

(Q.1 September 2011)

Question-13

Dr. Sona is a leading Eye Specialist. He manages a private clinic. A summary of his receipts and payments for the latest tax year is as follows:

Receipts	Note	Rs.	Payments	Note	Rs.
Consultation fees		4,400,000	Rent of clinic		300,000
Income from surgery		3,950,000	Household expenses		1,960,000
			Purchase of motor car		640,000
Property income	(i)	1,062,000	Surgical equipment		500,000
Other income	(ii)	75,000	Salary to assistant		180,000
			Clinic running expenses		240,000
			Car expenses	(iii)	200,000
			Donation	(iv)	300,000

Notes to the receipts and payments are presented below:

(i) Dr. Sona owns a commercial building which he has rented out. Details of net receipts is as follows:

	Rs.
Rent for the year	870,000
Non-adjustable security deposit:	
- received from a new tenant	700,000
- paid to old tenant (received three years ago)	(500,000)
Property tax on building	(8,000)
Net receipts	1,062,000

(ii) The amount was received for writing an article in an international magazine on World Health Day.

(iii) 60% of the motor car expenses were incurred in connection with his personal use.

(iv) Donation was given to a Government medical college for upgrading its library.

(v) Depreciation on motor car and surgical equipment, under the 3rd Schedule of the Income Tax Ordinance, 2001 is Rs. 96,000 and Rs. 75,000 respectively.

Required: Compute the taxable income, tax liability and tax payable by Dr. Sona for the latest tax year. Provide appropriate comments on the items which are not relevant for your computations. **(20)**

(Q.1 March 2012)

Question-14

Beena Sikandar is a lawyer and owns a law firm under the name Beena & Co. She is also Director Legal Affairs at Ayesha Foods Limited. Details of her income for the tax year 2012 are as follows:

(A) INCOME FROM BEENA & CO.

Income Statement

	Note	Rupees
Revenue	(i)	8,500,000
Less: Expenses		
Salaries	(ii)	2,000,000
Gifts and donations	(iii)	400,000
Lease charges	(iv)	900,000
Professional fee	(v)	400,000
Property expenses	(vi)	350,000
Travel expenses		150,000
Other expenses	(vii)	710,000
Income tax (Previous year)		90,000
		(5,000,000)
Net profit		3,500,000

Notes to the Income Statement

(i) Revenue includes Rs. 750,000 recovered from Rafia in respect of bad debts that had been written off while calculating the taxable income for the tax year 2010. The amount was receivable against professional services rendered to Rafia.

(ii) Salary expenses include amounts of Rs. 50,000 and Rs. 75,000 per month paid to Beena and her brother respectively. Her brother looks after administration and financial matters of the firm.

(iii) Gifts and donations include gifts to clients, gift to her son and donation to approved non-profit organization amounting to Rs. 100,000, Rs. 50,000 and Rs. 250,000 respectively.

(iv) A vehicle was obtained solely for official purposes on lease, from a bank. The lease commenced on 1 March 2012. Lease charges include Rs. 500,000 paid as security deposit to the bank.

(v) The professional fee includes an amount of Rs. 150,000 paid to a legal firm for defending a law suit filed against Beena, in a family court.

(vi) Beena lives in an apartment situated above her office, and two-fifths of the total property expenses relates to this apartment.

(vii) Other expenses include an amount of Rs. 260,000 paid for Beena's Golf Club membership which she exclusively used to promote her business interests. The payment to the club was made in cash.

(B) **DIRECTOR'S REMUNERATION FROM AYESHA FOOD LIMITED (AFL)**

(i) Beena received monthly remuneration of Rs. 100,000 from AFL.

(ii) During the year, she also received two bonus payments of Rs. 100,000 each. One of the bonus pertains to tax year 2011. It was announced last year but disbursed to her in the current year.

(iii) Beena has also been provided a vehicle, by AFL, for her personal as well as business use. The car was acquired by AFL in May 2007 at a cost of Rs. 2,000,000. The fair market value of the car as at 30 June 2012 was Rs. 1,500,000.

(iv) She received a fee of Rs.150,000 from AFL for attending the meetings of the Board of Directors (BOD).

(v) Details of tax deducted by AFL are as follows:

	Rupees
From salaries	390,000
From fee received for attending the meetings of BOD	9,000

Required:

Compute the taxable income, tax liability and tax payable by Beena Sikandar for the tax year 2012. Provide appropriate comments on the items appearing in the notes which are not considered by you in your computations. (17)

(Q.1 September 2012)

Question-15

On 1 July 2010, Kashmala and Shumaila formed an Association of Persons (AOP) with the objective of providing information technology support services. They contributed Rs. 1.2 million and Rs. 0.8 million respectively in their capital accounts and agreed to share profits and losses in the ratio of their capitals.

For the year ended 30 June 2011, business loss and unabsorbed depreciation of Rs. 0.4 million and Rs. 0.3 million respectively were assessed and carried forward.

During the year ended 30 June 2012, the AOP incurred a net loss of Rs. 0.8 million. The cost for the year was arrived after adjustment of the following:

(i) Salaries amounting to Rs. 0.5 million and Rs. 0.3 million were paid to Kashmala and Shumaila respectively.
(ii) Accounting depreciation on office assets amounted to Rs. 0.3 million.

AOP is entitled to claim tax depreciation of Rs. 0.25 million in respect of the office assets.

Required:

Calculate the taxable income, net tax payable and unabsorbed losses (including unabsorbed depreciation), if any, to be carried forward by the AOP for the year ended 30 June 2012.

(8)
(Q.5 (b) September 2012)

Question-16

Mr. Creative is working as Director Human Resources at Artistic Technologies Limited (ATL). Following are the details of his income/receipts during the latest tax year:

(a) Monthly cash remuneration from ATL:

Basic salary	Rs. 300,000
Utility allowance	15% of basic salary
Medical allowance	12% of basic salary

(b) In addition to above, he was also provided with the following benefits in accordance with his terms of employment:

(i) Rent-free furnished accommodation in a bungalow situated on a 500 square yard plot of land. Rent for a comparable accommodation facility in the vicinity is Rs. 130,000 per month.

(j) An 1800cc company-maintained car. The car was purchased two years ago at a cost of Rs. 1,600,000 and is used both for official and personal purposes.

(c) A house owned by Mr. Creative had been leased-out by him at a monthly rent of Rs. 50,000. The lease expired on 31 December. Mr. Creative refused to renew the lease in spite of the tenant's offer to renew the lease after increasing the rent by 10%. He returned the non-adjustable deposit of Rs. 300,000 to the tenant, which was received two years ago.

The house was immediately leased to his cousin without any security deposit on a monthly rent of Rs. 48,000.

(d) Five years ago, Mr. Creative had purchased 20,000 shares of Rs. 10 each, of an unlisted public company at the rate of Rs. 140 per share. After one year of acquisition, he received 8,000 bonus shares from the company having fair market value of Rs. 142 per share. During the latest tax year, he sold 75% of the bonus shares at a price of Rs. 145 per share.

(e) During the latest tax year, following investments were made:

	Rupees
Approved voluntary pension fund	600,000
Open-end mutual fund	1,100,000

(f) During the latest tax year, he redeemed 4,000 units of an open-end mutual fund at Rs. 58.60 per unit. These units were purchased three years back at Rs. 50 per unit and Mr. Creative had claimed a tax credit of Rs. 40,000 on this investment.

(g) Zakat of Rs. 50,000 were paid under Zakat and Ushr Ordinance.

(h) Tax deducted at source from his salary was Rs. 737,000.

Required:

Compute the taxable income, tax liability and tax payable for the latest tax year.

(20)
(Q.1 March 2013)

Question-17

Mrs. Aslam was employed with Sahal Limited (SL) as a Marketing Manager. On 30 June 2021 she resigned from her employment with SL. On 1 July 2021, she joined Hassan Pakistan Limited (HPL), a quoted company, as a Marketing Director. She has provided you the following information in respect of the tax year 2022:

(i) In July 2021, she received following amounts from SL in final settlement:
- Leave encashment amounting to Rs. 95,000.
- Gratuity of Rs. 500,000 from an unrecognized gratuity fund maintained by SL.
- Reimbursement of Rs.100,000 against a health insurance policy. The insurance claim was lodged by SL on behalf of Mrs. Aslam in January 2021.

(ii) In accordance with the terms of her employment, income tax related to her salary and benefits is to be borne by HPL. Her emoluments/benefits during the tax year were as follows:
- Basic salary of Rs. 200,000 per month.
- Medical allowance of Rs. 60,000 per month.
- Rent free accommodation with annual letting value of Rs. 480,000.
- Travelling allowance of Rs. 20,000 per month. 60% of the amount was spent in the performance of official duties.
- Provident fund @10% of basic salary. An equal amount was contributed by HPL.

(iii) Under an employee share scheme, Mrs. Aslam was awarded 5,000 shares in HPL on 1 January 2022. Under the scheme she was not allowed to sell the shares up to 31 March 2022. She sold all the shares in HPL on 1 May 2022. Fair value of the shares on the above dates was as follows:
- Rs. 20 per share on 1 January 2022
- Rs. 28 per share on 31 March 2022
- Rs. 32 per share on 1 May 2022

(iv) On 31 December 2021, she received a loan of Rs. 400,000 from HPL. The loan carries a mark-up of 4% per annum. The prescribed benchmark rate is 10%.

(v) She won the best executive employee award of HPL and received a laptop having a fair market value of Rs. 150,000.

(vi) An amount of Rs. 355,000 was received from her spouse as support payment, under an agreement to live apart.

(vii) She paid Rs. 105,000 as zakat under the Zakat and Ushr Ordinance, 1980.

(viii) Donation of Rs. 70,000 was paid to an institute listed in 13th schedule.

Required:

Compute the taxable income, tax liability and tax payable for the tax year 2022.

(21)

(Q.1 September 2013)

Question-18

Qamar is engaged in the business of trading of electric motors. His accountant has prepared the following tax computation for the tax year 20X4:

	----- Rs. -----
Sale of motors	45,000
Less: Cost of sales and administrative expenses (excluding depreciation for the year)	(33,000)
Income before depreciation	12,000
Less: Tax depreciation for the year	(9,000)
	3,000
Less: Brought forward business loss from tax year 20X3 (Total business loss was Rs. 4,000)	(3,000)
Taxable Income	-
Computation of tax	
Tax liability	-

Following expenses are included in the cost of sales and administrative expenses:

Description	Rs.
Travelling expenses include travel and hotel expenses of Qamar's visit to Malaysia for attending a trade fair	100
Electricity charges paid for Qamar's residence	150
Damages paid to a distributor for delayed supplies	200
Donations to a non-profit organization	300
Salary paid to Bari who is Qamar's brother. Advance tax has been deducted from the salary	720
Fine paid to the Ministry of Environment for infringement of environmental and safety laws	200
Unabsorbed depreciation brought forward from previous tax year	500

Qamar is not satisfied with the tax return prepared by his accountant and has requested you to review the return.

Required:

(a) Compute the revised taxable income of Qamar and tax payable by or refundable to him for the tax year 20X4. **(11)**

(b) Briefly comment on treatment of the above items of expenses in your tax computation. **(6)**

(Q.1 March 2014)

Question-19

Sultan is working as electronic engineer with Ansari Electrical Company Limited (AECL). He has provided you with the following information for the tax year ended 30 June 2021:

(a) His monthly cash remuneration in AECL is as follows:

	Rupees
Basic salary	480,000
Medical allowance	48,000
Utilities allowance	55,000
Market value of rent free accommodation	75,000

(b) He was also provided the following benefits in accordance with the terms of his employment:

(i) Leave encashment amounting to Rs. 300,000.

(ii) Hospitalization cost is covered by an insurance policy upto the amount of Rs. 1.5 million. The insurance premium relating to this benefit amounted to Rs. 55,000.

(iii) He is allowed to use his personal car for office use. Reimbursement of car running and maintenance expenses amounted to Rs. 550,000. 15% of these expenses pertain to personal use.

(c) Rs. 200,000 were received from a private limited company for attending board meetings.

(d) A lump sum amount of Rs. 1.2 million was received as the author of a literary work. Sultan took three years to complete this literary work.

(e) Sultan is also a part time singer and owns a studio. He sold the premises in which the studio was situated for Rs. 10 million and shifted his musical instruments to new premises which he purchased for Rs. 74.82 million. He received Rs. 2.5 million from his father in cash as loan to pay for his new studio. The previous premises was purchased several years ago for Rs. 1.4 million and had a tax written down value of Rs.600,000 at the time of disposal.

(f) The net income from the studio for tax year 2021 was Rs. 990,000. The expenses include salaries of two workers at Rs. 25,000 and Rs. 36,000 per month and utility bills amounting to Rs. 110,000. All expenses were paid in cash.

(g) He won a car, in a competition held by Star Motor Limited for promotion of its sales. The fair market value of the car was Rs. 850,000.

(h) He gifted 40 fans having a fair market value of Rs. 100,000 to an approved charitable organisation.

(i) An amount of Rs. 500,000 was paid by him as contribution to an approved pension fund.

Required:
Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax thereon for the tax year 2021. (20)

(Q.1 September 2014)

Question-20
On 1 July 2020, Tahir commenced business of selling garments. Income statement of the business for the year ended 30 June 2021 is as follows:

		Notes	Rs. in 000
Sales			49,330
Less: Cost of sales		(i)	(39,150)
Gross profit			10,180
Less:	Administrative and selling expenses	(ii)	(9,140)
	Financial charges	(iii)	(2,500)
	Other charges	(iv)	(1,358)
			(12,998)
Add: Other income			3,875
Profit before taxation			**1,057**

Notes to the income statement:

(i) On 15 July 2020, used machinery was imported from China valuing Rs.1,500,000. Depreciation @ 15% was charged on machinery for the whole year and is included in cost of sales.

(ii) Administrative and selling expenses include:
- Rs.975,000 paid for the purchase of computer software. The software is likely to be used for ten years.
- Cost of preparation of a feasibility study amounting to Rs.250,000 which was issued prior to the commencement of business.
- Salary of Rs.50,000 per month was paid to Tahir's brother who handles the financial matters of the business.

(iii) Financial charges include Rs.80,000 pertaining to a vehicle obtained on lease from a leasing company. The cost of vehicle was Rs.1,300,000. Depreciation of Rs.260,000 has been included in administrative and selling expenses. Lease rentals paid during the year amounted to Rs.384,375.

(iv) Other charges include:
- running and maintenance expenses of vehicle amounting to Rs.295,450. Use of vehicle for personal purposes was approximately 20%.
- provision for bad debts amounting to Rs.25,000.

Other information:

(i) Tahir was working in UAE for the past five years and had come back to Pakistan in April 2020. He received an amount equivalent to Rs.150,000 from his ex-employer as differential amount on his final settlement in August 2020.

(ii) In December 2020 he sold a plot for Rs.5,500,000 which was inherited from his father in September 2019. Fair market value of the plot at the time of inheritance was Rs.1,500,000.

(iii) 5,000 shares were purchased for Rs. 600,000 from initial public offering of a new listed company.

(iv) Premium of Rs.300,000 was paid on Tahir's life insurance policy.

Required: Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax liability of Tahir for the tax year 2021. Provide comments in respect of items which do not appear in your computation. (*Ignore minimum tax*) (18)

(Q.1 March 2015)

Question-21

Mukarram is working as a Commercial Manager in Airmen Engineering Limited (AEL), an unlisted public company, for the past many years. He derived following emoluments during the tax year ended 30June 20X5:

	Rupees
Basic salary (per month)	250,000
Medical allowance(per month)	37,500
Housing allowance(per month)	25,000
Travel allowance(per month)	11,500

In addition to above, Mukarram was also provided the following:

(i) A used company maintained car for both business and personal use. This car was provided to him on 1 July 20X4 in replacement of his previous car. This car was purchased three years ago at a price of Rs.1,000,000. However, the fair market value of the car on 1 July 20X4 was Rs.800,000. On 1 September 20X4 , in accordance with the terms of his employment, AEL transferred the previous car to Mukarram free of cost. The market value of the car at the time of transfer was Rs.400,000 where as its book value was Rs.200,000. On 1 June 20X5, Mukarram sold this car to his neighbor at a price of Rs. 350,000.

(ii) Performance related bonus of Rs.500,000. The bonus was however, paid to him on 5 July 20X5.

(iii) Two free buffet dinner coupons per month, one each for Mukarram and his wife in a five star hotel. The coupons were provided in line with AEL's policy for its management employees. The dinner costs AEL Rs.2,000 per person.

(iv) Reimbursement of Rs.20,000 in respect of telephone and internet charges. 20% of this amount was spent by Mukarram in performance of his official duties.

(v) Two air-conditioners and a washing machine for use at home. The combined book value of these appliances was Rs.300,000. The appliances are returnable to AEL after three years' time. AEL charged 10% depreciation on these appliances.

(vi) An option to purchase 20,000 shares in AEL on 1 May 20X5 at Rs.25 per share. The break-up value of AEL on that date was Rs.85 per share.

Other information relevant to tax year20X5 is as under:

(a) On 1 April 20X5, Mukarram sold a diamond ring to his brother Zohaib for Rs.250,000. The ring was purchased on 1 January 20X3 at a price of Rs. 280,000.

(b) Mukarram has 65 acres of agricultural land in Badin and a building in immediate vicinity of the land. Mukarram rented out 30 acres of his land along with the building to Dino who is a cultivator. Dino uses the building as a store house. Mukarram received annual rents of Rs.750,000 and Rs.325,000 in respect of the land and building respectively.

Mukarram is also running a small rice husking unit in Badin. He uses entire agricultural produce in the husking unit which is grown on the remaining portion of his land. During the year he brought 5,000 kilograms of raw rice from his land to the unit for husking. He would have earned Rs.2,500 per 40 kilogram of raw rice had he sold it directly to the market. His sales from rice husking unit stood at Rs.860,000 where as other operating expenses were of Rs. 10,000.

(c) On 31 May 20X5 a painting was destroyed by heavy rains. Mukarram had purchased the painting on 30 June 20X2 for Rs.100,000. However, due to constant increase in the value of the painting, he had insured it at a premium of Rs.15,000. He received insurance claim of Rs.275,000 on 15 June 20X5.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income of Mukarram for tax year 20X5. **(20)**

(Q.1 September 2015)

Note: show all relevant exemptions, exclusions and disallowance.

Question -22

Wajahat, aged 48 years, is a marketing manager in Nayaab (Pvt.) Limited (NPL), a company engaged in the manufacture and supply of tissue papers. The details of his monthly emoluments during the year ended 30 June 2021 are as under:

	Rupees
Basic salary	70,000
Dearness allowance	10,000
Conveyance allowance	8,000

In addition to the above, Wajahat was also provided the following:

(i) Provident fund (PF) contribution of Rs. 8,400 per month. An equal amount per month was contributed by Wajahat to the fund. Interest income of Rs.391,000 at the rate of 20% of accumulated balance of PF was credited to his PF account.

(ii) Reimbursement of electricity bills during the year amounting to Rs.60,000.

Following further information is also available:

(i) Wajahat received net dividend of Rs.78,200 from BEE Limited, a company listed on Pakistan Stock Exchange Limited. Withholding tax and zakat deducted from dividend amounted to Rs.9,200 and Rs.4,600 respectively. He also received dividend of Rs.65,000 from a company in U.A.E through normal banking channels. However, no tax was withheld either in Pakistan or U.A.E.

(ii) Wajahat contributed Rs.890,000 in an approved pension fund under the Voluntary Pension System Rules, 2005.

(iii) On 1 September 2020, Wajahat started a tuition centre for the students of finance in a posh locality. He received tuition fees of Rs.2,198,000 and incurred following expenses:

- Monthly salary of Rs.50,000 paid to himself and Rs.35,000 to his friend Yousuf who taught financial accounting at the centre.
- Travelling, boarding and lodging expenses of Rs.328,125. These expenses were incurred by Wajahat in Sri Lanka for attending teachers training workshop.
- Rs. 250,000 against purchase of computers for the centre.
- Other miscellaneous expenses amounting to Rs.195,000.

(iv) Wajahat's total taxable income during the previous tax year was Rs.1,850,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by/refundable to Wajahat during the tax year 2021.

Note: Show all relevant exemptions, exclusions and disallowances.

(16)

(Q.1, March 2016)

Question -23

Bader is working as General Manager Finance with HiFi Limited (HFL) for the past two years. The details of his monthly emoluments during the year ended 30 June 2016 are as under:

	Rupees
Basic salary	250,000
Medical allowance	28,000
House rent allowance	120,000

In addition to above, Bader was also provided the following:

(i) Rs. 900,000 for signing a bond with HFL. According to the bond Bader would not resign from his employment before the expiry of 30 June 2019.

(ii) Company maintained car for both official and private use. The car was purchased on 1 August 2015 at a fair market value of Rs. 1,500,000.

(iii) On 1 January 2016 HFL sold an item of inventory to Bader for Rs. 12,000. The net realizable value of the item of inventory at the end of 31 December 2015 and 30 June 2016 was Rs. 22,000 and Rs. 24,000 respectively. HFL had acquired it in July 2014 at a cost of Rs. 35,000.

(iv) An option was granted to Bader in August 2014 to acquire 2,500 shares in HFL's parent company, Mamoo plc. (MP), listed on Hong Kong stock exchange. However, the option was exercisable after completion of one year of service with HFL. Bader paid an amount equivalent to PKR 200,000 to acquire the option when the fair market value of the option was PKR 250,000.

On 1 September 2015 he paid an amount equivalent to PKR 300,000 to acquire the shares in MP. The shares were issued to him on 15 September 2015 when the market value of each share was equivalent to PKR 375.

On 15 June 2016 Bader sold 2,000 shares in MP and received net proceeds equivalent to PKR 875,000 in his bank account in Pakistan. This amount was received after deduction of bank charges of PKR 5,000 and brokerage commission equivalent to PKR 10,000.

Other information relevant to tax year 2016 is as under:

(i) On 1 July 2015 Bader received following payments from his previous employer Sultan Hospital Limited on termination of his services:
- Rs. 600,000 in respect of termination benefits under an agreement.
- Rs. 485,000 against gratuity under an unapproved scheme.

(ii) On 1 November 2015 Bader fell ill and was admitted to Sultan Hospital Limited. The hospital incurred Rs. 65,000 on his treatment but did not charge anything to Bader.

(iii) On 1 December 2015 he paid a premium of Rs. 300,000 on a life insurance policy.

(iv) On 1 January 2016 Bader purchased 35,000 listed shares in Muft Limited (ML) at a price of Rs. 25 per share. On 20 March 2016 he fully subscribed 15% right shares offered by ML to its existing shareholders at a price of Rs. 20 per share.

(v) Withholding tax deducted from Bader's salary during tax year 2016 amounted to Rs. 1,105,000.

(vi) His total assessed taxable income and total taxes paid thereon during the three preceding tax years amounted to Rs. 10,500,000 and Rs. 1,260,000 respectively.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and net tax payable by or refundable to Bader for tax year 2016. **(15)**

Note: Show all relevant exemptions, exclusions and disallowances.

(Q.1, September 2016)

Question-24

Mushtaq is a sole proprietor of Mushtaq Enterprises (ME) engaged in the business of selling different products. ME's profit and loss account shows profit before taxation of Rs. 1.8 million for the year ended 30 June 2021. A review of ME's records has revealed the following information.

(i) ME employs two salesmen. Rs. 46,000 per month were paid to each salesman in cash which includes reimbursement of Rs. 6,000 per month incurred on entertainment of customers at the business premises.

(ii) Administrative expenses include Rs. 150,000 which were paid to a research institute in China for the purpose of developing a new product.

(iii) Accounting loss on the sale of patents was Rs. 65,000. The tax written down value of these patents at the beginning of the year was Rs. 430,000 and these were sold for Rs. 524,000. Amortization charged to the profit and loss account on these patents for the current year was Rs. 25,000.

(iv) Receivables from Atif and Aslam which had been written off in the previous year were recovered. Details are as follows:

	Atif	Aslam
	-----Rupees-----	
Claimed bad debts in last tax return	800,000	1,200,000
Allowed by tax authorities last year	550,000	600,000
Amount recovered during the year	700,000	400,000

(v) ME has opened a sales office in Dubai. In this respect, furniture costing Rs. 850,000 with written down value (WDV) of Rs. 650,000 was shifted to Dubai office. The tax WDV of the furniture at the beginning of the year was Rs. 610,000.

(vi) Accounting depreciation for the year is Rs. 580,450. However, no depreciation has been provided on the following fixed assets purchased on 1 March 2021:

	Rupees
Furniture	400,000
Used machinery imported from Germany	500,000

(vii) Tax depreciation for the year, prior to the adjustments mentioned in (vi) above, amounted to Rs. 484,525.

(viii) Advance tax paid u/s 147 was Rs. 200,000.

(ix) The assessed business losses of tax year 2015 brought forward in year 2021 are Rs. 830,000. These include unabsorbed tax depreciation amounting to Rs. 705,000.

Other transaction of Mushtaq

On 1 June 2021, he sold 6,000 shares for Rs. 432,000 out of 15,000 shares which he received on 1 May 2018, on the death of his father. The fair market value of shares on the date of transfer to Mushtaq was Rs. 25 per share.

Required:

Under the provisions of Income Tax Ordinance, 2001 and rules made thereunder, compute taxable income and net tax payable by or refundable to Mushtaq for the year ended 30 June 2021. (16)

(Q.1, March 2017)

Question-25

Taqi Ahmed is working as Director Marketing with Zee Textiles Limited (ZTL) for the last twenty five years. Details of his monthly emoluments during the year ended 30 June 20X7 are as under:

	Rupees
Basic salary	440,000
Conveyance allowance	44,000
Medical allowance	44,000

In addition to the above, Taqi Ahmed has provided the following information:

(i) He and his family members are covered under the health insurance policy in accordance with the terms of employment. The amount of annual premium paid by ZTL was Rs.200,000.

(ii) During the year, daily allowance of Rs.40,000 was received to meet the expenses for working on assignments at ZTL's factories located in Lahore and Multan.

(iii) On 31 July 20X7, the HR Committee approved a performance bonus for all employees for the year ended 30 June 20X7. Taqi received Rs.1,200,000 as performance bonus on 15 August 20X7.

(iv) On 31 March 20X7, in recognition of completion of twenty five years of his service with ZTL, the board of directors approved to waive the outstanding amount of loan taken by Taqi Ahmed. This loan of Rs.2,500,000 was taken on 1 January 20X5 and was repayable in fifty equal monthly instalments commencing from May 20X5. The prescribed benchmark rate is 10% per annum and employer also charged interest at 10%.

(v) During the year, he received Rs.100,000 for attending board meetings of ZTL. No tax was withheld from this amount.

(vi) Amount of tax withheld by ZTL from his salary amounted to Rs.2,000,000.

Other information relevant to tax year 20X7 is as under:

(i) Salary is transferred to the bank account on 10th of the following month.

(ii) 10% annual increase was given to him effective 1st July in each of the last three years.

(iii) Taqi has given his house on rent to his cousin at annual rent of Rs.1,500,000. The rent was inclusive of amenities and utilities of Rs.25,000 per month. However, annual rent for a similar house with same amenities and utilities, in the vicinity, is Rs.1,800,000.

(iv) He acquired 15,000 shares of a listed company from Privatization Commission of Pakistan at a price of Rs.60 per share on 15 January 20X6. He claimed tax credit of Rs.90,000 on such investment, against the tax payable for the tax year 20X6. On 15 June 20X7 he sold all the shares at the rate of Rs.85 each.

(v) On 31 August 20X6, he won a prize bond amounting to Rs. 110,000.

(vi) He also received Rs.159,375 as cash dividend declared by AL. The share registrar correctly deducted withholding tax accordingly.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under correct head of income, the total income, the taxable income and net tax payable by or refundable to Taqi Ahmed for the year ended 30 June 20X7. **(16)**

(Q.1, September 2017)